Dawson, Michael

From:

Sent:

To:

G7 Daily Briefing Readers [briefing@g7group.com]

Monday, December 03, 2001 8:08 AM

G7 Daily Briefing Readers

Subject: G7DB Árgentina Econ, ECB, Fed - 12/03/01



Argentine Debt Crisis -- Government Restricts Bank Withdrawals

- -Government decree limits bank withdrawals and the transfer of funds abroad.
- -New measures allow conversion of Peso accounts into Dollars.
- -Will these latest measures stave off a total collapse?

Euroland Economy & ECB -- Firmly in Wait-and-See Mode

- -Last month's 50bp move bought time.
- -Notes and coins take center stage.
- -Will the Bank revise its M3 growth target on Thursday

US Fed -- Headed toward Looser Monetary Policy

- -Fed doesn't yet see pick-up in investment.
- -Enron is on the radar screen.
- -What should you look for in this Friday's jobs report?

Argentine Debt Crisis -- Government Restricts Bank Withdrawals

The Argentine government on Saturday sharply limited the amount that Argentines can withdraw from banks and restricted transfers of money abroad. Economy Minister Domingo Cavallo said restrictions on deposits will remain in place for 90 days to give the government time to complete both the domestic and international transhes of its debt exchange. The new measures are a desperate attempt to halt Friday's dramatic run on banks and stave off a collapse of the financial system. However, given the fall in domestic confidence, it's unlikely that these new measures will stabilize the banking system, allow the government to carry out an orderly restructuring of its debt, or protect convertibility. Indeed, the probability of an outright default and the collapse of convertibility has risen even higher.

Moreover, the government's decree allows the conversion of all Peso accounts into Dollars -- a possible precursor to dollarization. The emphasis on dollarizing the financial system within this decree bolsters our theory that the government will opt for full dollarization before devaluing the Peso once convertibility becomes unsustainable. We believe that dollarization is the most likely outcome (but don't completely discount the risk of devaluation -- or devaluation plus dollarization -- given the fluidity of the situation, the erosion of reserves, and the unpredictability of economic policy under Cavallo). However, adopting the dollar at this point is unlikely to end the crisis.

Restrictions will:

Limit cash withdrawals to \$250/week. All transactions beyond the weekly limit must be done using credit, debit cards or checks. Moreover, checks must be deposited into bank accounts and can't be transferred directly into cash. In addition to preventing Argentines from liquidating their accounts into cash, the measure is intended to crack down on evasion of the VAT.

Limit the transfer of money abroad to \$1000/month. Trade-related transactions will be exempt. This measure is intended to stop capital flight. Argentines will also be checked at airports and border crossings to prevent them from taking cash out of the country.

Allow Peso-denominated accounts to be converted into Dollar accounts. Banks will also be restricted from loaning Pesos. Existing Peso loans can be converted into Dollar loans.

But this conversion will not occur automatically; account holders must request it. The conversion will be one-to-one and banks are prohibited from charging any fees for these transactions.

Ban local banks and financial institutions from participating in currency futures and options markets.

In addition to halting the outflow of deposits, the new measures are aimed at moving people out of the informal sector and back into the formal economy (where taxes can be collected). By restricting cash transactions, a large part of the informal sector theoretically could be transferred into the mainstream economy. However, instead of broadening the formal sector, the new measures will more likely to lead to the collapse of the informal economy -- which has acted as a key social insurance policy and kept a floor under the working poor. Workers involved in services like domestic help, gardening, etc., are traditionally paid in cash. Faced with cash restrictions, demand for these services will collapse. As a result, this most recent deepening of Argentina's financial crisis will likely increase social instability. Several union leaders have already talked of calling strikes this week. As such, chances are rising that the government -- or at least Cavallo -- may soon be forced to step down.

Bottom line: Argentina's restrictions on bank deposits will hurt demand for cash services that employ the working poor. Expect political and social tension to rise this week. Moreover, the government appears to be moving toward dollarization.

Euroland Economy & ECB -- Firmly in Wait-and-See Mode

N.B. There is a table that is viewable in the attached pdf file.

Focusing on the introduction of Euro notes and coins, the ECB will likely leave interest rates unchanged on Thursday. Of course, the Bank is confronting a slew of depressing data — from anemic Q3 growth numbers to a second set of bleak Ifo and INSEE business confidence surveys. Moreover, the sharp drop in inflation has forced even the ECB to admit that HICP will likely fall below 2% in 1Q02. However, we see at least five reasons why a rate cut this week remains unlikely:

Last month's bold move bought time. By cutting rates 50bp last month, the ECB not only responded to existing economic weakness, but it also made a down payment on the ongoing slowdown's future effects. Moreover, the ECB doesn't believe it's behind the curve and will be reluctant to send any such signal to the markets.

Notes and coins. The Bank prefers to tread softly in the run-up to the introduction of notes and coins -- especially with the changeover now less than a month away. (We'll take a closer look at this transition in tomorrow's G7DB.)

There's no clamor for lower rates. Sure, markets would love to see the Bank deliver another dose of easing. However, in sharp contrast to a month ago -- and in recognition that the ECB has already cut rates 150bp this year -- Euroland policymakers have toned down their appeal for further cuts.

Liquidity. The ECB has only slashed rates as aggressively once before: on April 8, 1999, when it cut the refi rate 50bp to 2.5% from 3.0%. But two years ago the Bank was reacting to prevent a possible liquidity crisis and reinforce stability -- a different situation altogether. We expect the Bank to proceed cautiously, then, as rates approach 3.0%.

The limitations of monetary policy. The Bank still believes that monetary policy takes at least 12-18 months to work though the system. Moreover, given its renewed emphasis on structural reform, Duisenberg & Co. clearly believe that monetary policy is only part of the recovery equation.

Thursday's meeting is important for M3 as well. The Bank will also conduct its third annual examination of M3 money supply growth targets. However, we'd be surprised if the Bank opted to change its current 4.5% reference value (despite an ongoing increase in M3 that saw money supply grow 7.4% last month, even after two separate distortions were eliminated). Three structural factors determine the reference value: inflation expectations, Euroland trend growth and the velocity of circulation of money. With inflation coming on with a vengeance and the Bank unlikely to alter its views on trend growth, it would take a sharp change in velocity for the ECB to switch the reference value

from 4.5%. As a result, we think that the Bank would rather ignore M3 than change or eliminate it.

Bottom line: With the changeover to Euro notes and coins around the corner, the ECB will likely stand pat on Thursday and leave rates at 3.25%. Look for Duisenberg to reinforce the Bank's cautious optimism at Thursday's press conference -- and in this morning's testimony to the European Parliament.

US Fed -- Headed toward Looser Monetary Policy

Worries about an extended downturn have given way to concern that the recovery will be weaker, or take longer than markets expect. We see three main areas of concern to the Fed:

Investment. The Fed watched collapsing capex lead the way down, and they are watching closely for signs that it is recovering before they will be confident that the US is on the way up. (Look for the G7 Group's Investment Index, to be released tomorrow.) Along those lines, we wouldn't get too warm and fuzzy over last week's durable goods report. The headline number was big, but it was boosted by defense bookings. That's good at the margins, but still a narrow part of the economy. Excluding defense new orders are still well below August levels.

The Enron mess is on the Fed's radar screen. The Fed hasn't gotten their arms all the way around this one, but they are probing. Virtually every global bank has participated in an Enron credit facility and has used Enron as a derivative counterpart. Unwinding these contracts will be difficult.

Unemployment is still rising. If employment drops another 100,000 or so, a Fed ease is a done deal. If the employment drop is as bad as the last one in October (which neither we nor the Fed expect), a 50-bp cut wouldn't be out of the question. Pay attention to some of the underlying measures in this report; namely, whether the workweek expands and what happens to temporary help workers. If employment is going to turn up, you could very well see it in this category first. Also watch what happens to the BLS diffusion index that measures the percentage of industries in which employment is expanding. (This measure has been dropping steadily over the last several months.) Also, the Fed will be interested in whether there is any letup in the number of manufacturing layoffs.

Bottom line: In general, Washington is feeling a bit less nervous. But the Fed still has plenty of concern -- almost guaranteeing a 25 basis point cut next week.

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Harvey, Reavie

Sharer, James From:

Wednesday, January 09, 2002 8:24 AM Sent:

DL Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; To: Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin,

Thomas; wallarig; wayneea

Financial Markets Morning Report 1/9/02 Subject:

--Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second quarter.

--The yen firmed against the major currencies overnight as Japanese and South Korean officials expressed some discomfort with the recent swift depreciation in the yen

FX: The yen retraced to Y 132.30 after falling to a low of Y133.37, which prompted Japanese officials to express discomfort with the speed of the yen's recent depreciation. Government spokesman Fukada acknowledged that the yen's recent decline had been "a bit rapid" but "this is a level which is manageable." However, earlier in the Tokyo session, the MOF's Kuroda stated that the country's forex policy "remains unchanged despite the yen's rapid decline. South Korean officials continued to complain about the weaker yen. The dollar was little changed against the euro.

Japan: Japan's leading diffusion index rose to 25 in November from a zero reading in October, while November household spending was up 0.9%. The Nikkei 225 index and the TOPIX index were down 0.3% and 0.7% as bank stocks weakened further. The TOPIX bank index fell 1.8%. JGB yields were unchanged to down 2 bps. The JGB 10-year auction was well bid, with a coupon of 1.4% and the highest coverage ratio since 1989 at 11.35 times.

Emerging Asia: Emerging Asian stock markets were mixed. The Hang Seng and Singapore indexes were off 2.3% and 1.1%. The Taiwan and Kospi indexes were up 1.0% and 2.3%, aided by strength in semiconductor stocks. Hynix Semiconductor rose 15.0%, bolstered by talk of an offer from Micron Technology for the South Korean chipmaker.

Europe: German unemployment rose a smaller-than-expected 6,000 in December. The Euro area business climate index fell to -1.23 in December, its lowest level since 1996. Euro area 3Q01 labor costs rose a larger than expected 3.3%. The BOE policy committee began a two-day series of meetings. European stock bourses were mostly lower. The FTSE underperformed, pressured by declines in retail store and oil issues. HSBC was downgraded by an analysts, citing exposure to Enron and Argentina. German bund yields were up 1 to 6 bps on strong Euro area economic data. U.K. gilt yields were higher by 4 to 10 basis points.

Turkey: Turkey's National 100 index was down 3.1% to 14,421 on some profit-taking. The lira weakened 0.3%. The Turkish EMBI+ sub-index spread narrowed 6 bps to 660 bps, while the overall EMBI+ spread narrowed 3 bps to 700 bps.

Latin America: The Argentine EMBI+ sub-index spread fell 4 bps to 4316 bps, while Brazil's EMBI+ sub-index rose 3 bps to 835 bps.

Commodities: Brent crude oil is currently down \$0.50 to \$20.52 a barrel following news of a build in both crude oil and distillate inventories.

U.S. Assets Overnight

Treasury coupon prices are currently down 1/8 to 1/4 point in light trading. There are no major U.S. economic statistics scheduled for release today. Treasury will auction at 1 PM \$6.0 billion 10-year inflation-indexed notes. The Dow, S&P 500 and Nasdag index futures are indicating no clear direction at the New York open.

Today's Events:	Actual	Consensus Expectation	Previous Period
JPN Prelim. Leading Diffusion index, Nov.	25	40.1	0 (was 16.7)
JPN Household Spending, Nov.	+0.9% y/y	+0.1% y/y	+0.4% y/y
GER Unemployment, Dec.	+6,000	+20,000	+17,000
EUR 3Q01 Labor Costs	+3.3%	+2.8%	+2.7% (was +2.8%)
EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18)



From: Cetina, Jill

Sent: Monday, July 09, 2001 4:29 PM

To: DL_Market Group

"mlundsager@imf.org"; "kmalmgre@opd.eop.gov"

Subject: Financial Market Closing Report, July 9, 2001

Overview Price action in U.S. and international markets was limited in the NY afternoon. U.S. equity indices closed 0.5% to dated yields fell 1 to 3 bps. The EMBI+ spread to Treasuries narrowed 4 bps to 812 bps, led by a narrowing of Turkish submarket focal points. Participants will also look for comments tomorrow from Euro-area officials following the EU finance component. Dealers reported trading volume as thin. Tomorrow's domestic debt auctions in Argentina and Turkey will be 1.1% higher in moderate trading. The Treasury curve flattened with yields at the short-end rising 1 to 3 bps while longerministers meeting and the results of the ECB's refinancing operation.

S. Markets

Foday's T-bill auction came in 1 to 2 bps higher than yields in late WI-trading with the 3- and 6-month bills priced to yield 3.56% and 3.5%, respectively. Participants attributed the modest underperformance of the front to mid-portion of the Treasury curve to strength in equities and profit taking as well as forthcoming Agency and corporate supply. The NASDAQ rose for the first time in five days, led higher by gains in Qualcomm and Cisco. The DJIA also posted gains, led higher by shares of AT&T, Merck and J&J. Drug and healthcare stocks outperformed on the S&P while oil, brokerage and telecom shares were underperformers. Freddie Mae is to price a 5-year \$6 billion issue tomorrow and Enron and Eli Lilly are expected to issue in the 2- and 5-year sectors. Corporate bond traders report that spreads of Comcast and AT&T bonds widened on news of a possible hostile takeover by Comeast of AT&T's broadband unit.

Global Markets

Price action in the major currencies was fairly limited in the NY afternoon with dealers noting light flows. However, in the attributed the yen's strength to price action in the options market. They noted dollar/yen's inability to hold above Y126 last early afternoon the yen showed some strength, firming to intra-day highs against the dollar and curo. Some participants week reduced demand for yen puts and, as implied volatility in dollar/yen options has fallen, the yen has strengthened.

cabinet shake-up to help him consolidate control over Argentina's finances, including the budgets of social security and other Although Argentine markets are closed today, participants await Economy Minister Cavallo's 6 p.m. press conference later this evening. Participants speculated that Cavallo might announce further spending cuts of up to \$2 billion and possibly a social programs. Forward points on 1-month and 1-year Argentine NDFs continued to decline modestly in the NY

afternoon.

auction could be reduced. Participants note Argentine authorities have been twisting the arms of local banks once again in the External debt traders will also look to tomorrow's Letes auction results for direction. Originally, Argentina was to auction 850 million in 3- and 12-month Letes, however, there has been talk among participants that the size and/or maturity of the run-up to the Letes auction.

In thin trade the Brazilian real closed 0.7% weaker despite the central bank's carlier intervention.

Sharer, James From:

Monday, October 29, 2001 4:44 PM Sent:

DL Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; To:

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Financial Markets Night Report 10/29/01 Subject:

-- U.S. equities sharply lower on profit-taking, concerns over the U.S. economy.

-- Treasury prices stronger on reallocation from equities, flight-to-safety.

-- Dollar weaker against the major currencies.

-- Argentina asset prices substantially weaker, worries of debt default.

U.S. Markets

U.S. equity markets closed with sharp declines in active trading, pressured by profit-taking, weakness in the overseas equity markets and worries over upcoming U.S. economic data. Concerns over a potential Argentine debt default and a prolonged war against terrorism also weighed on stocks. Enron Corp. fell 10.3% to 13.81 on news that Moody's may downgrade its commercial paper rating. The worst stock performers were semiconductor, software, electrical equipment, financial and bank issues.

Treasury coupon prices were up 1/8 to 3/8 point in moderate trading, mainly reflecting substantial declines in the U.S. equity market, concerns over Argentina and worries over this week's slate of U.S. economic data (3Q GDP, October unemployment). Traders also noted a Fed coupon pass today totaling \$478 million (maturities of November 2021 to February 2029). Treasury announced today that it expects to borrow \$31 billion in marketable debt in the October-December 2001 quarter and to target a cash balance of \$35 billion on December 31. Treasury auctioned today \$15.0 billion 3-month and \$14.0 billion 6-month T-bills (an increase in size of \$1 billion each) to raise \$6.201 billion new cash. The results were as follows:

3-month T-bill awarded rate: 2.050% Coverage ratio: 2.17 times 6-month T-bill awarded rate: 2.005% Coverage ratio: 2.06 times

Today's awarded rates compare with last week's awarded rates of 2.170% and 2.130%, respectively. Separately, Treasury announced it will auctioned tomorrow \$12.0 billion 4-week T-bills to be issued November 1 and raise \$4.0 billion new cash. In WI trading the new 4-week bills were bid at 2.19%.

The November Federal funds futures contract fell 2 basis points to 2.21%, while the December and January contracts each fell 2 bps to 2.04% and 2.00%, respectively.

The December crude oil contract rose \$0.12 to \$22.15 a barrel on expectations of an OPEC reduction in crude oil output. The November natural gas contract climbed \$0.16 to \$3.20 per million btu. Spot gold rose \$1.50 to \$278.60 an ounce on some short-covering.

Global Markets

The dollar depreciated 1.3% against the euro and was 0.6% weaker against the yen. The dollar was 1.3% weaker against the British pound and 1.4% weaker against the Swiss franc (to a two-week low).

Latin American equity markets closed substantially lower, given worries over a potential Argentine default on its debt and weakness in the U.S. stock market. Argentina's Finance UnderSecretary Julio Dreizzen resigned, citing "personal reasons." The Merval index plunged 8.7%, while the Argentine FRB bonds fell 8 1/4 to 55 1/4. Forward points on 1month and 1-year Argentine peso NDFs were quoted at 575 and 3600, respectively. Brazil's real and the Mexican peso were modestly weaker against the dollar. The Bovespa index fell 3.4%.

The EMBI+ spread widened 41 bps to 1054 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+167 to 2005), Brazil (+77 to 1204) and Mexico (+16 to 401). The Turkey sub-index rose 14 bps to 901.



From:

Sharer, James

Sent:

Tuesday, October 30, 2001 4:54 PM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject: Financial Markets Night Memo 10/30/01

- -- U.S. equities extended losses on weak U.S. data, earnings warnings.
- -- Treasury prices climbed on weaker stocks, declining consumer confidence.
- -- The dollar traded in a narrow range against the major currencies.

U.S. Markets

U.S. equity markets closed with solid losses in active trading. News of a larger-than-expected drop in the October consumer confidence report and worries over anthrax and possible terrorist attacks weighed on investors. Traders also noted earnings warnings for Philip Morris and CVS Corp. Enron Corp. fell 19.2% to 11.16 today and has dropped 67.0% in the last two weeks. The worst stock performers today were semiconductor, electrical equipment, oil, telephone, financial and software issues.

Treasury coupon prices were up 1/8 to 5/8 point in moderate trading, mainly reflecting weakness in the U.S. equity market and the large drop in the October consumer confidence index. The yield on the Treasury 2-year notes, now at 2.46%, is below the Federal funds target rate of 2.50%. The yield on the Treasury 10-year notes, currently at 4.43%, marks a three-year low. Dealers await Treasury's announcement tomorrow morning of the details of the November refunding operation and the release of the advance 3Q GDP report for further direction. Treasury auctioned today \$12.0 billion 4-week T-bills to raise \$4.0 billion new cash. The results were as follows:

Awarded rate: 2.140% Coverage ratio: 2.37 times

Today's awarded rate compares with last week's awarded rate of 2.280%.

The November Federal funds futures contract fell 3 basis points to 2.18%, while the December and January contracts fell 4 bps and 5 bps to 2.00% and 1.95%, respectively.

The December crude oil contract fell \$0.28 to \$21.87 a barrel ahead of the weekly API oil inventory report. The Bush administration is seeking to replenish the SPR over three years. The December natural gas contract fell \$0.16 to \$3.18 per million btu. Spot gold rose \$1.50 to \$280.10 an ounce.

Global Markets

The dollar traded in a narrow range against the euro and yen ahead of tomorrow's U.S. 3Q GDP data. The dollar was 0.2% firmer against the British pound but 0.2% weaker against the Swiss franc.

Latin American equity markets closed mostly lower, given the weakness in the U.S. stock market. The Bovespa and Bolsa fell 3.1% and 1.3%, respectively. However, the Merval index edged up 1.8% following yesterday's 8.7% plunge. The Argentine FRB bond rose 4 1/2 to 59 on some short-covering. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 650 and 3600, respectively. Brazil's real was little changed on the day.

The EMBI+ spread narrowed 4 bps to 1064 bps over the comparable Treasuries. Several other EMBI+ sub-indexes also narrowed, including Argentina (-39 to 2027) and Brazil (-16 to 1179). However, the Mexican sub-index rose 5 bps to 403 bps and Turkey's sub-index rose 12 bps to 920 bps.

Tomorrow's Events: JPN Housing Starts, Sept. FRN Unemployment Rate, Sept.	Time	Consensus Expectation -4.0% m/m 9.0% m/m	Previous Period -6.5% m/m -9.0% m/m
ITL Prelim. CPI, Oct.		+2.5% y/y	+2.6% y/y
US 3Q GDP	8:30 AM	-1.0%	+0.3%
US Chicago PMI, Oct.	10 AM	44.0	46.6



From:

Sharer, James

Sent:

Wednesday, October 31, 2001 5:03 PM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 10/31/01

- -- U.S. equities were mostly lower, given a contraction in 3QGDP.
- -- Treasury prices surged on news of a halt in long bond auctions.
- -- The dollar strengthened against the major currencies in light dealings.

U.S. Markets

U.S. equity markets closed mixed in heavy trading, following news this morning of a modest contraction in 3Q GDP. The Nasdaq index rose 1.3% today and was up 12.8% for the month, marking the first monthly gain since June (+2.4%). Enron Corp. rose 24.5% to 13.90, one day after falling to a 9-year low, on takeover talk. The worst stock performers were insurance, drug, health care, telephone and bank issues. The best stock performers were semiconductor, retail store, computer, communication equipment and natural gas issues.

Treasury coupon prices were up 1/8 to 4 1/8 points in very hectic trading. The surge in bond prices reflected news that Treasury will halt sales of both nominal and TIPs 30-year bonds. The yield on the Treasury 30-year bond fell as low as 4.82% this afternoon, a level not seen in decades. Treasury announced it will auction next week \$16.0 billion 5-year and \$7.0 billion 9 3/4-year 5% notes to raise \$1.412 billion new cash. In WI trading the notes were bid at 3.57% and 4.25%, respectively.

The November Federal funds futures contract rose 3 basis points to 2.21%, while the December and January contracts rose 3 bps and 1 bp to 2.02% and 1.96%, respectively.

The December crude oil contract fell \$0.69 to \$21.18 a barrel. The December natural gas contract rose \$0.11 to \$3.29 per million btu. Spot gold fell \$0.70 to \$279.40 an ounce.

Global Markets

The dollar appreciated 0.5% against the euro and was 0.4% firmer against the yen as the advance U.S. 3Q GDP report showed a more resilient economy than was anticipated. The dollar was 0.2% weaker against the British pound and 0.6% firmer against the Swiss franc.

Latin American equity markets closed slightly firmer, with the Bovespa climbing 3.1%. The Merval index edged up 0.5% as investors awaited further news of a debt swap. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 650 and 3550, respectively. Brazil's real firmed 1.0%, breaking beneath the BRL 2.70 mark for the first time since October 1, despite a postponed auction of the power utility Copel.

The EMBI+ spread widened 12 bps to 1086 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+49 to 2150), Mexico (+11 to 415) and Turkey (+20 to 926). The Brazil sub-index edged down 5 bps to 1184 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
UK PMI Manufacturing, Oct.		45.0	46.5
UK House Price Index, Oct.		-1.5% m/m	+2.7% m/m
US Initial Jobless Claims, wk ender	110/27 8:30 AM	-4,000	+8,000 to 504,000
US Personal Income, Sept.	8:30 AM	+0.1%	unch
US NAPM Index, Oct.	10 AM	44.0	47.0



From:

Sharer, James

Sent:

Thursday, November 01, 2001 5:16 PM

To:

DL Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jav Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 11/1/01

- -- U.S. equities rallied on strength in technology stocks.
- -- Treasury prices were mixed ahead of October employment data tomorrow.
- -- The dollar weakened against the major currencies in rather light dealings on a weak October NAPM report but set a record high vs. the Canadian dollar.

U.S. Markets

U.S. equity markets closed with strong gains in active trading, aided by strength in the technology issues and a substantial reduction in long-term U.S. interest rates. The Nasdag was up 3.3%. Microsoft rose 6.4% to 61.84 on news of a settlement with the Justice Dept. Enron fell 13.7% to 11.99 on news of a formal SEC investigation. The best stock performers were semiconductor, software electrical equipment, oil, financial, computer and entertainment issues,

Treasury coupon prices were down 3/8 to up a full point in moderate trading, retreating from session highs on some profittaking. A rally in the U.S. stock market weighed on prices of short-term issues, while bond prices remained firm in continued response to the Treasury decision to halt long bond auctions. Analysts expect tomorrow's report on October nonfarm payroll employment will show a 325,000 increase, with the October unemployment rate rising to 5.2% from 4.9% in September. In WI trading the Treasury 5-year and 9 3/4-year notes were bid at 3.58% and 4.25%. Treasury announced it will auction on Monday \$16.0 billion 3-month and \$15 billion 6-month T-bills (an increase in size of \$1 billion each) to raise \$7.578 billion new cash. In WI trading the new bills were bid at 2.01% and 1.94%, respectively.

The November Federal funds futures contract was unchanged at 2.21%. The December and January contracts were also unchanged at 2.02% and 1.96%, respectively.

The December crude oil contract fell \$0.79 to \$20.39 a barrel. The December natural gas contract edged down\$0.01 to \$3.29 per million btu. Spot gold rose \$0.30 to \$279.70 an ounce.

Global Markets

The dollar depreciated 0.3% against the euro and was 0.4% weaker against the yen following news of a sharp decline in the October NAPM index. The Canadian dollar weakened 0.4% against the U.S. dollar to a record low of C\$1.5994, on concern over sluggish economic growth in Canada

Latin American equity markets closed firmer, with the Merval index rising 1.9% and the Bolsa up 1.3%, bolstered by gains in the U.S. stock market. However, Argentine tax revenues in October dropped 11.3% to \$3.57 billion compared with the same month a year ago, which was much lower than anticipated. The tax data raised further questions over the country's zero deficit plan. In addition, the IMF poured cold water over the idea of an early disbursement of a \$1.3 billion December loan. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 950 and 4000, respectively. Brazil's real firmed 0.9% as investors waited for Argentina's financial plan to emerge.

The EMBI+ spread widered 20 bps to 1093 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+146 to 2308), Brazil (+30 to 1193) and Mexico (+4 to 416). The Turkey sub-index edged down 8 bps to 937 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
EUR Manufacturing PMI, Oct.		45.9	45.0
GER PMI, Oct.		44.3	45.1
US Nonfarm Payroll Employment, Oct.	8:30 AM	-325,000	-199,000
US Factory Orders, Sept.	10 AM	-5.0%	unch



From:

Sharer, James

Sent:

Monday, November 05, 2001 8:12 AM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Morning Report 11/5/01

- -- Global equity markets were mostly firmer; Royal Dutch may purchase Enron; Boeing wins \$6.6 billion order for 25 aircraft from Emirates.
- -- Dollar strengthened vs. the euro and sterling on weak economic data and an FT report stating that an EMU member (Italy) deliberately manipulated budget data.

Foreign Markets

Japan: Japan's leading diffusion index fell to 37.5 in September from a revised 50.0 in September, as expected. The BOJ's Suda played down the threat of intervention, suggesting that intentionally weakening the yen may be harmful, but a "natural" decline would be tolerated. The Nikkei 225 index and the TOPIX index edged up 0.6% and 0.1%. JGB yields were unchanged to down 2 bps in thin trading, with the JGB 10- and 30-year yields at 1.30% and 2.40%, respectively.

Emerging Asia: Emerging Asian stock markets were mostly higher. The Hang Seng, Taiwan and Kospi indexes rose 2.0% to 2.4%. However, the Thai, Jakarta and Kuala Lumpur indexes posted modest declines. Singapore's ruling People's Action Party won 75% of the popular vote in the general election on Saturday.

Europe: Euro Area HICP index rose 2.4% y/y in October, marking the fifth month decline, roughly as expected. However, U.K. economic data on September industrial production and October PMI services were much weaker than anticipated, raising expectations for a possible 50 bps easing by the BOE this Thursday. The ECB policy board is also scheduled to meet on Thursday. However, BBK President Welteke played down the chances of an ECB rate cut, stating that further ECB easing could pump up liquidity too much and fuel inflation expectations. European stock bourses were stronger by 0.8% to 2.3%, with the DAX outperforming. German bund yields were lower by 1 to 5 bps, while U.K. yields were down 3 to 17 basis points.

Brent crude oil is currently up \$0.60 to \$19.22 a barrel, marking the 32nd day below the \$22 a barrel level. OPEC officials continued to indicate that a 1 million bpd production cut was possible.

Turkey: Turkey's National 100 index was up 0.9% to 10,158 and the lira was 1.0% firmer to TRL 1,555,000. Hopes for IMF aid offset news of a larger-than-expected 6.6% m/m rise in the October CPI. The Turkish EMBI+ sub-index rose 38 bps to 934 bps, while the overall EMBI+ narrowed 8 bps to 1112 bps.

Latin America: The Argentine EMBI+ sub-index narrowed 55 bps to 2530 bps, while Brazil's EMBI+ sub-index narrowed 20 bps to 1165 bps. Argentina's Cavello will hold a press conference at 11 AM.

U.S. Assets Overnight

Treasury coupon prices are currently up 1/8 to 5/8 point in light trading ahead of the 10 AM release of the October non-manufacturing NAPM index. The Dow, S&P 500 and Nasdaq index futures are indicating moderate strength at the New York open.

Today's Events:	Actual	Consensus Expectation	Previous Period
JPN Leading Diffusion Index, Sept.	37.5	37.5	50.0 (was 55.6)
EUR Prelim. HICP, Oct.	+2.4% y/y	+2.4% y/y	+2.5% y/y
UK PMI Services, Oct.	46.3	46.0	48.1
UK Industrial Production, Sept.	-1.2% m/m	-0.5% m/m	+1.0% m/m
US Non-manufacturing NAPM, Oct.	10 AM	47.0	50.2



From: Sent: MSN Money Update [MSNMoneyUpdate_034237@ms-moneycentral.customer-email.com]

Friday, January 11, 2002 6:40 PM

To: Subject: ken.dam@do.treas.gov

Decoding Greenspan's signals

Receive the chanced market report in HTML - Simply signin and select "HTML" http://moneycentral.msn.com/Comcenter/options.asp?returnURL=/Comcenter/email.asp

The following data is best viewed in a Fixed Width font such as Courier.

Leading Indexes(as of 1/11/2002 16:00 hours ET) http://moneycentral.msn.com/investor/market/leading.asp

Quotes supplied by Standard & Poor's Comstock and delayed at least 20 minutes. Data Source: http://www.spcomstock.com

Name	LEVEL	CHANGE	%Change
Dow Jones Industrial Average	9,987.53	-80.33	-0.80%
S & P 500 Index	1,145.60	-10.95	-0.95%
Nasdaq Composite Index	2,022.46	-24.78	-1.21%
Amex Composite Index	834.07	-2.76	-0.33%
Russell 2000 Index	489.94	-5.37	-1.08%

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Market Summary (as of 1/11/2002 16:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Decoding Greenspan's signals Provided by MSN Money

The week began with the growing belief that a recovery is upon us. That belief -- thanks to Ford, Enron, Kmart and eventually Fed chief Alan Greenspan -- eroded virtually every day thereafter.

>

The Dow Industrial Average fell for the fifth straight session Friday, down about 2.6% on the week. The technology-heavy Nasdaq Compositive Index did marginally better, ending the week less than 2% off its closing level of 2059 last Friday.

>

After Greenspan said in a speech today that he sees evidence of both stability and remaining risk, investors widely expect interest rates to drop again soon. And as for equities, stockholders trying to justify some high valuations remain out on a thinner limb.

>

The feeling on the floor of the stock exchanges was decidedly negative. As investment pro Ted Weisberg told CNBC, ôItEs difficult to put two or three good days together ... I think we are going to be ... locked in a very narrow trading range until we get some kind of positive sign on the economy. §

>

Earnings parade begins

<p;

The earnings season trickle turns into a flood next week, with banks and technology companies headlining the fourth-quarter disclosure list. Investors will be looking especially for signals on what companies expect during the current quarter and beyond.

>

A taste of what&s to come: E*Trade on Monday, Intel on Tuesday, General Motors on Wednesday, MSN Money parent Microsoft on Thursday and Sun Microsystems Friday.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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From: Sent: Congressional Quarterly [midday-owner@cq.com]

Friday, January 11, 2002 2:02 PM middayupdate@lists.cq.com

To: Subject:

CQ Daily Monitor Midday Update 1-11-02

CQ DAILY MONITOR MIDDAY UPDATE
Published by Congressional Quarterly and the CQ Daily Monitor
www.CQ.com

Friday, January 11, 2002 - 1:59 p.m.

Today in Washington

LEAD STORY: Making good on a longstanding threat, President Bush today gave recess appointments to two conservatives whose nominations have been stalled by Senate Democrats.

HOUSE: Reconvenes for second session of the 107th Congress at noon Wednesday, Jan. 23.

SENATE: Reconvenes for second session of the 107th Congress at noon Wednesday, Jan. 23.

PRESIDENT BUSH: Signs brownfields legislation (HR 2869) in Conshohocken, Pa.; meets with prime minister of Poland at White House.

IN WASHINGTON: Amtrak Reform Council meets to discuss the three options for an plan to restructure rail passenger service.

QUOTE OF THE DAY: "The president's been spending enormous amounts of time prosecuting the war on terrorism. You know, I'm a Cabinet secretary, I know what my responsibilities are. I don't run across the street and tell the president every time I talk to somebody." -- Treasury Secretary Paul H. O'NEILL, explaining on ABC's "Good Morning America" why he did not tell the president of a call from Enron Corp. Chairman Kenneth L. Lay in late October.

TODAY'S TRIVIA: Rep. Jerry Lewis, R-Calif., says a UCLA class trip to Washington in 1955 got him interested in public service as a way to effect change. Some of Lewis' fellow students were forced to ride on a separate tourist boat on the Potomac because they were black. (Source: Congressional Quarterly's "Politics in America.")

Edited by Martha Angle and Val Ellicott

BUSH APPOINTS REICH, SCALIA TO CIRCUMVENT SENATE OPPOSITION

President Bush signed recess appointments today for conservatives Otto Reich and Eugene Scalia, whose nominations to administration positions have been blocked by Senate Democrats. A senior administration official, speaking on condition of anonymity, said the White House gave Congress formal notification of the long-threatened appointments, the Associated Press reported. Bush named Reich assistant secretary of state for Latin America, the top diplomatic post for the region that Bush made his primary foreign relations priority before the war on terrorism consumed him. Scalia, the son of Supreme Court Justice Antonin Scalia, assumes the post of Labor Department solicitor. His nomination was approved 11-10 on Oct.

16 by the Health, Education, Labor and Pensions Committee but never received a floor vote. Reich has never received a hearing in the Foreign Relations Committee. With the recess appointments, both men can serve until the 107th Congress comes to a close.

TREASURY DEPARTMENT REVEALS NEW ENRON CONTACTS

The Treasury Department today revealed more high-level contacts with Enron Corp. When the energy company was in a downward financial spiral. Department spokeswoman Michele Davis said Enron president Lawrence "Greg" Whalley talked to Under Secretary Peter Fisher six to eight times in late October and early November. She said Fisher "inferred" that he was being asked to make calls on Enron's behalf to banks that were deciding whether to extend the company's credit. She said Whalley made no calls. The revelation comes on the heels of new information about calls from Enron chairman Kenneth L. Lay to Treasury Secretary Paul H. O'Neill, Commerce Secretary Donald L. Evans and Federal Reserve Chairman Alan Greenspan, and follows an admission by the company's outside auditor, Arthur Andersen LLP, that some Enron documents have been destroyed. Bankrupt Enron is the subject of separate Justice Department and Securities and Exchange Commission probes, plus inquiries by four congressional panels.

BUSH COMPLETES FY 2002 APPROPRIATIONS BY SIGNING LABOR-HHS, FOREIGN OPERATIONS

As his next budget proposal nears completion, President Bush has signed into law the last of the 13 fiscal 2002 appropriations bills. With a mixture of praise and caveats, Bush signed late yesterday the big Labor, Health and Human Services, and Education funding bill (HR 3061), which provides \$123.4 billion in discretionary funding for some of the government's top domestic priorities. He also signed the \$15.4 billion foreign operations spending bill (HR 2506), which tracked his total funding request fairly closely but altered some of his priorities. Saying he was "supportive" of the overall Labor-HHS bill, Bush expressed "strong concerns" that it mandates a Pell Grant maximum award of \$4,000 per student "but provides only enough funding to pay for a maximum award of \$3,600." Pell Grants are the leading source of direct aid to low-income college students. "My administration will ask the Congress to correct this shortfall in the FY 2003 budget," Bush said in a statement.

WOLF SAYS \$200 MILLION IN AID NOT ENOUGH FOR AFGHANISTAN

Afghanistan needs more financial aid from the United States than the the \$200 million proposed in a supplemental request expected this month, Rep. Frank R. Wolf, R-Va., said today. Wolf, chairman of the House Appropriations Subcommittee on Commerce, Justice, State and Judiciary, returned last night from a weeklong trip to Afghanistan. He said the United States needs to consider a reconstruction plan on the scale of the Marshall Plan, which was used to rebuild Europe after World War II. "We need enough to make progress," he said. "You just don't have any choice." Failing to send substantial aid to the region would risk creating conditions that would allow the Taliban to reclaim power, he said. Wolf and Reps. Tony P. Hall, D-Ohio, and Joe Pitts, R-Pa., visited hospitals, schools and refugee camps in Afghanistan and other south Asian nations.

DEMOCRATS COULD PICK UP ONE SEAT FROM TENNESSEE REMAP

A redistricting plan approved yesterday by the Democratic-controlled Tennessee state legislature gives Democrats a good shot at capturing the redesigned 4th District. Van Hilleary, the Republican who represents the current 4th, is running for governor. The plan would swap several Republican counties in the 4th District for Democratic ones now represented by 3rd District Republican Zach Wamp on the district's eastern

edge. On the west, it would perform a similar swap with Republican Ed Bryant's 7th District. Democratic State Sen. Lincoln Davis has been campaigning for the seat and faces no primary opposition. On the Republican side, Tullahoma Alderman and former Hilleary aide Janice Bowling and State Safety Department Commissioner Mike Greene will meet in an Aug. 1 primary. The redistricting should not cause headaches for any of Tennessee's eight incumbents (four from each party) seeking re-election.

POLITICAL CLIPPINGS

The Argus (S.D.) LEADER reported that GOP state Rep. Matt McCaulley said a bill he is writing to bar a candidate from running for president and another office on the same South Dakota ballot isn't aimed at Senate Majority Leader Tom Daschle. The bill would make it impossible for Daschle to run for president and re-election to his Senate seat at the same time. Republicans control the state legislature and the governor's office.

The Dallas MORNING NEWS reported that two leading Democrats in the race for the Senate seat that will be left open by the retirement of Republican Phil Gramm showed off their Hispanic support yesterday in dueling endorsements. Former San Antonio Mayor Henry Cisneros called on voters to back former Dallas Mayor Ron Kirk. Rep. Ken Bentsen countered with a list of prominent Hispanics backing his candidacy.

The Fargo (N.D.) FORUM reported that Rick Clayburgh, the state's tax commissioner, officially announced his bid yesterday for the GOP endorsement to challenge Democratic Rep. Earl Pomeroy. Another prospective GOP candidate, former Louisiana State basketball coach Dale Brown, has said he will decide on the race soon.

AND FINALLY...

Americans on alert for possible attacks should recognize that danger does not always come on two legs. The threat posed by beavers, woodchucks, deer, blackbirds and other seemingly benign critters has come under federal investigation. The Associated Press reported that congressional appropriators ordered the General Accounting Office to study the effectiveness of federal efforts to protect people and property from wildlife. The GAO reported 27,000 injuries a year from rodents, \$1 billion in damage a year from cars hitting deer, 15 deaths a year from snake bites, 6,000 collisions between birds and airplanes in 2000, and \$70 million in annual livestock losses from predators, mainly coyotes. The study found that nonlethal means of scaring off wildlife show promise, but many animals learn to thwart the best-laid plans.

Editor of Daily News: Mike Mills

Managing Editor: Randy Wynn

Managing Editor, CQ.com: Jackie Frank

Associate Editor: Martha Angle

Senior Editors: John Bicknell, Jack Deutsch, Val Ellicott, Katherine Rizzo, Kathleen Silvassy, Joe Warminsky Reporters: The staff of the CQ Daily Monitor and CQ Weekly

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From: Congressional Quarterly [midday-owner@cq.com]

Sent: Thursday, January 10, 2002 1:53 PM

To: middayupdate@lists.cq.com

Subject: CQ Daily Monitor Midday Update 1-10-02

CQ DAILY MONITOR MIDDAY UPDATE
Published by Congressional Quarterly and the CQ Daily Monitor
www.CQ.com

Thursday, January 10, 2002 - 1:50 p.m.

Today in Washington

LEAD STORY: After behind-the-scenes talks, Senate Majority Leader Tom Daschle, S.D., is likely to move soon to convene a conference committee on stalled patients' rights legislation.

HOUSE: Reconvenes for second session of the 107th Congress at noon Wednesday, Jan. 23.

SENATE: Reconvenes for second session of the 107th Congress at noon Wednesday, Jan. 23.

PRESIDENT BUSH: Meets with his economic team, signs defense appropriations bill and meets with prime minister of Greece.

IN WASHINGTON: The W.K. Kellogg Foundation holds an all-day conference on its "Devolution Initiative," a multi-year grant project examining the effects of welfare and health care reform efforts in a half-dozen states.

QUOTE OF THE DAY: "This administration will fully investigate issues, such as the Enron bankruptcy, to make sure we can learn from the past and make sure that workers at protected." -- President BUSH, announcing a review of pension laws and regulations.

TODAY'S TRIVIA: GOP Rep. James V. Hansen, who plans to retire at the end of this year after serving 11 terms, holds the record as the longest-serving House member from Utah. (Source: Congressional Quarterly's "Politics in America.")

Edited by Martha Angle and Val Ellicott

DASCHLE LIKELY TO MOVE PATIENTS' RIGHTS BILL TO CONFERENCE SOON

Senate Majority Leader Tom Daschle, S.D., intends to call a conference committee soon to work out differences between competing patients' rights bills that passed the two chambers last summer. "There has been progress made in talks between sponsors and the White House, and Sen. Daschle intends to appoint a conference committee soon after Congress reconvenes," a spokeswoman said late Wednesday. The House passed its version (HR 2563) on Aug. 2 after amending it to White House specifications. The Senate passed a more sweeping version (S 1052), with a broader right to sue, on June 29. Nothing happened for the remainder of the first session -- at least in public view. However, spokesmen for the sponsors of both bills say the lines of communication have remained open, with lawmakers and their staffs continuing to negotiate with each other and with the White House. The talks could make a conference committee a mere formality.

BUSH SIGNS DEFENSE SPENDING BILL, CALLS IT A DOWN PAYMENT

Echoing the last-minute nature of the fiscal 2002 appropriations process, President Bush signed a \$317 billion fiscal 2002 defense appropriations bill (HR 3338) this afternoon with only hours to spare before temporary spending authority expires. The measure also allocates \$20 billion in emergency spending appropriated earlier (HR 2888 -- PL 107-38) "This shows that, at an hour when America is under attack, we are steady," Bush declared. Bush also repeated his goal to increase defense spending in fiscal 2003. "This makes a down payment on our central commitment," he said. The Senate cleared the bill Dec. 20, but it was not submitted to the president until Jan. 7, congressional aides said, because so much of the bill was written at the last minute and they needed time over the holidays to complete a final draft. The defense measure is not the last spending bill to be signed -- the foreign operations (HR 2506) and Labor-HHS (HR 3061) bills also need Bush's signature by midnight.

BUSH TO SIGN BROWNFIELDS BILL AND SEEK MAJOR FUNDING BOOST

President Bush plans to sign legislation tomorrow that would spur cleanups of abandoned industrial sites in urban areas, and he will ask Congress to double funding for such efforts, the Associated Press reported. EPA Administrator Christine Todd Whitman said today the administration's budget proposal for fiscal 2003 will seek \$102 million more than the \$98 million Congress appropriated this year for cleaning up so-called brownfields. Congress cleared a five-year authorization bill (HR 2869) on Dec. 20 that would funnel up to \$250 million a year to state and local governments and Indian tribes for cleaning up some 450,000 polluted industrial sites. Bush plans to sign that legislation into law during a visit to Conshohocken, Pa. Whitman said the administration may propose spending the full \$250 million in fiscal 2004.

DEMOCRATS SEE RETURN TO DEFICIT SPENDING THIS YEAR

House Budget Committee Democrats today predicted the federal Treasury will see deficit spending in both fiscal 2002 and 2003, citing projections described as "very conservative." John M. Spratt Jr., S.C., the top Democrat on the panel, said a more realistic forecast shows deficit spending for the next three fiscal years. Under both sets of assumptions, the Democrats expect the government to borrow from Social Security surpluses to fund regular government operations for at least seven years. "We are finding ourselves right back in the business of borrowing and spending from Social Security," Spratt said. The House Democrats' projection for this fiscal year tracks closely with estimates by Senate Budget Committee analysts. While Democrats expect small deficits in 2002 and 2003, Republicans expect balanced budget or small surpluses, at least in 2002. The Congressional Budget Office will release its calculations later this month.

BUSH CABINET WILL REVIEW PENSION RULES IN WAKE OF ENRON BANKRUPTCY

President Bush has ordered his economic team to review company pension plan rules and find ways to protect workers in bankruptcies like the one at Enron Corp. Bush said today he has ordered Treasury Secretary Paul H. O'Neill, Commerce Secretary Donald L. Evans and Labor Secretary Elaine L. Chao to recommend steps "to make sure that people are not exposed to losing their life savings." A senior Bush adviser said the president acted partly to inoculate himself against criticism for his administration's association with Enron's top officials, the Associated Press reported. The company's chief executive officer, Kenneth L. Lay, contacted O'Neill and Evans last fall to express concerns about his energy firm's financial

situation, White House spokesman Ari Fleischer said today. The pair decided not to take action, he said. Bush said he last saw Lay at a fundraiser in the spring. "I have not met with him personally," Bush said, apparently referring to his time as president.

BUSH OFFICIALS SAY ECONOMIC STIMULUS WILL HELP JOB SEEKERS

Three Cabinet secretaries appeared at a local job fair today to pressure Senate Democrats to pass President Bush's economic stimulus plan and buttress his stance as a compassionate conservative. "Unemployed workers don't need partisan delays or political speeches, they need jobs," said Labor Secretary Elaine L. Chao, who was joined by Transportation Secretary Norman Y. Mineta, and Commerce Secretary Donald L. Evans at the Workforce Recovery Conference at the Washington Convention Center. "The Senate needs to end the roadblock to the president's job growth package," Chao said. Despite signs of an improved economy, she said extended unemployment benefits are still needed to help displaced workers through the "transition" out of the recession. Washington Deputy Mayor John A. Koskinen, a Democrat, said Bush administration officials had more than jobs on today's agenda, but "if people are making political points along the way, that's fine with me."

WASHINGTON REMAP WITH MINOR CHANGES TO BE APPROVED

The Washington state legislature will bless a congressional redistricting plan this month, according to a letter sent yesterday by the state attorney general's office to the state Supreme Court. The remap would make only minor changes to the state's nine districts, held by six Democrats and three Republicans. The state's bipartisan redistricting commission approved the plan Jan. 1, 17 days after a statutory deadline. The legislature will change that deadline retroactively, allowing the plan to become law and obviating the need for court action. The commission had asked the attorney general to recommend action to the court, which would take over if the commission failed. Assuming the plan is adopted, Republicans plan to target Democratic Reps. Rick Larsen and Brian Baird, whose districts would lose some Democrats. Larsen, a freshman, represents the northwestern 2nd District, which includes Bellingham and part of Everett. Baird, elected in 1998, represents the 3rd District in the southwestern corner of the state. Vancouver and Olympia are its biggest cities.

FORD BUILDING TO CLOSE AGAIN FOR MORE ANTHRAX CLEANUP

The Ford House Office Building will close again tonight while efforts continue to remove anthrax from an office occupied by the hazardous devices section of the Capitol Police. Lt. Dan Nichols, a police spokesman, said small amounts of anthrax detected in the office are believed to have come from equipment used in anthrax cleanup efforts in the Hart Senate Office Building. The Hart building was closed after an anthrax-laced letter was opened on Oct. 15 in the 5th-floor suite of Senate Majority Leader Tom Daschle, S.D. Congressional and health officials plan to reopen Hart when test results show that cleanup efforts there were successful. Nichols said liquid chlorine dioxide is being used to decontaminate the Ford building. Chlorine dioxide gas was used to fumigate Hart.

POLITICAL CLIPPINGS

The Fayetteville (N.C.) OBSERVER reported that Tim Dunn, a lawyer and a lieutenant colonel in the Marine Corps reserves, said yesterday he likely will join three other Democrats trying to knock Republican Robin Hayes out of the 8th District seat. The other three Democrats -- Billy Richardson,

Ray Warren and Chris Kouri -- also are lawyers.

The Everett (Wash.) HERALD reported that state Rep. Kelly Barlean is the latest to join the parade of GOP candidates seeking to take on freshman Democratic Rep. Rick Larsen. Norma Smith, who was an aide to former GOP Rep. Jack Metcalf (1995-2001), announced her candidacy in November, and Herbert Meyer, a former aide to President Ronald Reagan, jumped into the race last month.

The New York POST reported that donations to Democratic Sen. Hillary Rodham Clinton's political action committee have topped \$1 million, including contributions from partners in the firm that rents former President Bill Clinton his office space in Harlem. Three partners in Cogswell Realty Group contributed \$5,000 to HILLPAC, according to reports filed with the Federal Election Commission. Taxpayers foot the bill for the office space of ex-presidents.

AND FINALLY...

Homeland Security Director Tom Ridge said today that "everything humanly and technologically possible" has been done to make Salt Lake City safe for the 2002 Winter Olympics next month, Reuters reported. "I can say with certainty this will be the most secure sporting event, probably one of the safest places in the world, from Feb. 8 through the end of the Olympics," Ridge said on ABC's "Good Morning America." He said no specific threats have been received ahead of the Olympics, but law enforcement agencies aren't taking any chances. The agencies are on national security alert at least until March 11, which would take them through the Olympics in Utah and the Superbowl, the two major sporting events over the next few months, said Ridge.

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Sharer, James From:

Wednesday, January 09, 2002 8:24 AM Sent:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; To:

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Financial Markets Morning Report 1/9/02 Subject:

--Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second guarter.

-The yen firmed against the major currencles overnight as Japanese and South Korean officials expressed some discomfort with the recent swift depreciation in the yen.

FX: The yen retraced to Y 132.30 after falling to a low of Y133.37, which prompted Japanese officials to express discomfort with the speed of the yen's recent depreciation. Government spokesman Fukada acknowledged that the yen's recent decline had been "a bit rapid" but "this is a level which is manageable." However, earlier in the Tokyo session, the MOF's Kuroda stated that the country's forex policy "remains unchanged despite the yen's rapid decline. South Korean officials continued to complain about the weaker yen. The dollar was little changed against the euro.

Japan: Japan's leading diffusion index rose to 25 in November from a zero reading in October, while November household spending was up 0.9%. The Nikkei 225 index and the TOPIX index were down 0.3% and 0.7% as bank stocks weakened further. The TOPIX bank index fell 1.8%. JGB yields were unchanged to down 2 bps. The JGB 10-year auction was well bid, with a coupon of 1.4% and the highest coverage ratio since 1989 at 11.35 times.

Emerging Asia: Emerging Asian stock markets were mixed. The Hang Seng and Singapore indexes were off 2.3% and 1.1%. The Taiwan and Kospi indexes were up 1.0% and 2.3%, aided by strength in semiconductor stocks. Hynix Semiconductor rose 15.0%, bolstered by talk of an offer from Micron Technology for the South Korean chipmaker.

Europe: German unemployment rose a smaller-than-expected 6,000 in December. The Euro area business climate index fell to -1.23 in December, its lowest level since 1996. Euro area 3Q01 labor costs rose a larger than expected 3.3%. The BOE policy committee began a two-day series of meetings. European stock bourses were mostly lower. The FTSE underperformed, pressured by declines in retail store and oil issues. HSBC was downgraded by an analysts, citing exposure to Enron and Argentina. German bund yields were up 1 to 6 bps on strong Euro area economic data. U.K. gilt yields were higher by 4 to 10 basis points.

Turkey: Turkey's National 100 index was down 3.1% to 14,421 on some profit-taking. The lira weakened 0.3%. The Turkish EMBI+ sub-index spread narrowed 6 bps to 660 bps, while the overall EMBI+ spread narrowed 3 bps to 700 bps.

Latin America: The Argentine EMBI+ sub-index spread fell 4 bps to 4316 bps, while Brazil's EMBI+ sub-index rose 3 bps to 835 bps.

Commodities: Brent crude oil is currently down \$0.50 to \$20.52 a barrel following news of a build in both crude oil and distillate inventories.

U.S. Assets Overnight

Treasury coupon prices are currently down 1/8 to 1/4 point in light trading. There are no major U.S. economic statistics scheduled for release today. Treasury will auction at 1 PM \$6.0 billion 10-year inflation-indexed notes. The Dow, S&P 500 and Nasdag index futures are indicating no clear direction at the New York open.

Today's Events: JPN Prelim. Leading Diffusion index, Nov. JPN Household Spending, Nov. GER Unemployment, Dec. EUR 3Q01 Labor Costs	+0.9% y/y +6,000 +3.3%	40.1 +0.1% y/y +20,000 +2.8%	Previous Period 0 (was 16.7) +0.4% y/y +17,000 +2.7% (was +2.8%) -1.20 (was -1.18)
EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18



From: Sent: Congressional Quarterly [midday-owner@cq.com]

Wednesday, January 02, 2002 1:49 PM

To:

middayupdate@lists.cq.com

Subject:

CQ Daily Monitor Midday Update 1-2-02

CQ DAILY MONITOR MIDDAY UPDATE
Published by Congressional Quarterly and the CQ Daily Monitor
www.CQ.com

Wednesday, January 2, 2002 - 1:47 p.m.

Today in Washington

LEAD STORY: The Senate Governmental Affairs Committee launched a sweeping investigation into the collapse of Enron Corp., the Houston-based energy company that filed for bankruptcy on Dec. 2 amid questions about its accounting practices.

HOUSE: Reconvenes for second session of the 107th Congress at noon Wednesday, Jan. 23.

SENATE: Reconvenes for second session of the 107th Congress at noon Wednesday, Jan. 23.

PRESIDENT BUSH: Continues his vacation at his ranch in Crawford, Texas.

IN WASHINGTON: Lawyers for Zacarias Moussaoui, the first person indicted in the Sept. 11 terrorist attacks, told a U.S. District Court in Alexandria, Va., that Moussauoi was pleading not guilty to charges of conspiring with Osama bin Laden and others to murder thousands in the attacks.

QUOTE OF THE DAY: "This war is not just military. It's economic. It's diplomatic. It will continue to be fought and prosecuted on several fronts." -- Admiral John STUFFLEBEEM, deputy director of Operations for the Joint Staff

TODAY'S TRIVIA: Rep. David Phelps, D-Ill., and his brothers earned a living in the 1970s and early 1980s as the Phelps Brothers Quartet, a Christian music group. (Source: Congressional Quarterly's "Politics in America.")

Edited by Martha Angle and Val Ellicott

SENATE PANEL LAUNCHES ENRON PROBE, SETS JAN. 24 HEARING

The Senate Governmental Affairs Committee is launching a sweeping investigation into the collapse of Enron Corp., the Houston-based energy company that filed for bankruptcy on Dec. 2 amid crashing stock prices and questions about its accounting practices and handling of employee retirement plans. Carl Levin, D-Mich., chairman of the Permanent Subcommittee on Investigations, said the panel will issue "document subpoenas" to past and present Enron officers and board members and to Arthur Andersen, the company's auditing firm, within the next week.

"Something is rotten in the state of Enron," Levin said. Full committee Chairman Joseph I. Lieberman, D-Conn., said he will hold the first of many hearings on the matter on Jan. 24. "This is going to be a search for the

truth, not a witch hunt," said Lieberman. Levin said his panel will focus on the "inside," meaning Enron's actions, while the full committee will take a broader role, looking at analysts and the regulatory agencies.

BUSH, INTELLIGENCE COMMITTEE MEMBERS SPAR OVER REPORTS

Intelligence authorizers said today they are confident they can convince President Bush that a provision in the intelligence authorization bill (HR 2883) he signed last week will not curtail his powers to protect classified information. The provision requires written reports to the congressional intelligence agencies on significant intelligence failures or significant anticipated intelligence activities. But when he signed the measure on Dec. 28, the president said he would disregard the provision in cases where he deemed that disclosure of information "could impair foreign relations, the national security, the deliberative processes of the Executive, or the performance of the Executive's constitutional duties to keep information classified for national security reasons." Aides said the new provision does not require written reports in all instances. "This was not designed to change the flexibility of the president at all," a Senate Intelligence Committee aide said. The two sides are expected to meet sometime in the next several days.

SON OF HOUSE MAJORITY LEADER WILL RUN TO SUCCEED FATHER

Scott Armey, the son of House Majority Leader Dick Armey of Texas, announced yesterday that he will run to succeed his father in Congress. Scott Armey, who is the elected administrator of Denton County, will face at least three other Republicans in a March 12 primary. One Democrat has filed to run in the GOP-heavy 26th District, which includes suburbs north of Dallas as well as rural areas. Dick Armey, who will leave the House in January 2003, told a small crowd that gathered New Year's Day in Denton that "the day will come when you will know that when Dick Armey left, and Scott Armey got elected, you traded up." Dick Armey announced Dec. 12 that he will retire at the end of the 107th Congress.

REP. WATKINS TO RETIRE, EASING OKLAHOMA'S REDISTRICTING

Oklahoma Republican Rep. Wes Watkins made a political New Year's resolution, announcing Monday that he will not seek re-election this year. Because Oklahoma lost one of its six House seats in reapportionment, Watkins' retirement will ease redistricting pressure on state lawmakers: The Democratic-controlled legislature was threatening to pair Watkins and Republican Frank D. Lucas in a single district. "My hope is that the state legislature and the governor will take advantage of my leaving office to reach an agreement on congressional redistricting that preserves districts for the remaining five incumbent congressmen," Watkins said. Watkins, 63, has had two separate tenures in Congress, changing party affiliation in between. He served for 14 years (1977-91) as a Democrat, lost bids for governor as a Democrat in 1990 and as an independent in 1994, then returned to the House as a Republican in a 1996 open-seat victory.

POLITICAL CLIPPINGS

The New Orleans TIMES-PICAYUNE reported that Sen. John B. Breaux, D-La., is expected to announce at a news conference at 1:30 p.m. tomorrow if he will run for governor next year. Breaux began dropping hints last summer about returning home to seek the governorship. GOP state Sen. Ken Hollis has said he'll run no matter what Breaux decides.

The Contra Costa (Calif.) TIMES reported that GOP Rep. Richard W. Pombo faces challenges from two Democrats and one Republican in a reconfigured 11th District that now includes technology-dependent suburbs like Morgan

Hill and San Ramon.

The Birmingham (Ala.) NEWS reported that Democratic Sen. Mary L. Landrieu of Louisiana is tapping Mobile residents for re-election campaign funds because she sees south Alabama residents with ties to New Orleans and an interest in urban redevelopment as her "natural constituencies."

AND FINALLY...

When Florida Democrat Bill Nelson was elected to the Senate in 2000, Republicans expressed hope he would be the type of Democrat -- in the mold of Georgia's Zell Miller -- who would frequently support Bush administration initiatives. But those hopes were dashed quickly as Nelson voted against the confirmation of John Ashcroft as attorney general and opposed the administration's tax-cut package, the Fort Myers News-Press reported today. Florida Republicans now call Nelson an obstructionist. One of Nelson's first moves was to volunteer as a soldier in the fight to overhaul campaign finance laws. And his party named him to the No. 2 post at the Democratic Senatorial Campaign Committee, a nod to the prowess he showed in raising \$6.6 million to defeat Republican Rep. Bill McCollum (1981-2001) in the Senate race.

Editor of Daily News: Mike Mills

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From:

Byrne, Kathleen

Sent:

Tuesday, December 18, 2001 8:05 AM

To:

DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Enrique Perez. (E-mail); Eric H. Otto (E-mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren;

T.J. Shevlin

Subject:

AM Global Financial Markets - December 18, 2001

-- The themes of broad yen weakness, selling of longer-dated U.S. Treasuries, and thin, end-of-year trading conditions persist.

Foreign Exchange: The yen is weaker across the board, moving convincingly above the Y 128 level against the dollar to fresh three-year lows. Participants cited yesterday's comments by Japanese FinMin Shiokawa and Vice FinMin Kuroda conveying apparent acceptance of a weaker yen, and discounted EconMinTakenaka's lone assertion that the yen's exchange rate was nearing levels compatible with fundamentals. Although shorter-term speculative accounts took profits above the Y128 level, dealers continue to expect a fairly rapid move in dollar/yen above Y130, once rumored options barriers around that level are broken through. Although the dollar and the euro are little changed against most other currencies, market talk that British Petroleum may buy Enron-owned gas stations in Germany was cited as future support for the euro; dealers took in stride today's Financial Times reports of a possible flood of counterfeit euro notes produced by eastern European countries and noted that euro notes will be accepted at stores in the United Kingdom after Jan. 1.

Japan: Participants are focusing on the BOJ's two-day policy meeting, which concludes tomorrow. FinMin Shiokawa said today that "we are strongly asking the BOJ to provide abundant liquidity to the banking system" and called on the central bank to provide more than 14 trillion yen in liquidity in the run-up to year-end, comments which foreign exchange market participants also took as tacit approval to sell the yen.

Emerging Asia: In contrast to recent weeks, emerging Asian currencies are beginning to respond negatively to the yen's depreciation. Today, the New Taiwan dollar fell to a four-month low against the U.S. dollar. After outperforming the yen for a number of weeks, the Korean won depreciated 0.6% yesterday and was little changed overnight.

Europe: Euro-area consumer price inflation for November was on expectations, but area industrial production fell by more than expected. As a result, euro-area sovereign debt is rallying, with yields 1 to 7 bps lower and short ends outperforming. Implied yields on near-dated euribor futures contracts (March and June) are 3 to 4 bps lower.

Commodities: In very thin trading, crude oil prices are consolidating ahead of the release of API data late this afternoon.

U.S. Assets Overnight

The front-month DJIA, Nasdaq 100, and S&P 500 futures contracts are all trading moderately higher, suggesting positive movement in prices at the New York open. Treasury prices are little changed to modestly lower, the long bond outperforming. The ten-year yield rose to a five-month high, reflecting hedging activity by mortgage investors.

Today's Events:

Actual

Consensus Expectation

Previous Period

Two-day BOJ board meeting starts -- no change expected but a few contacts look for tinkering at the margins to increase

liquidity. ECB President Duisenberg gives quarterly testimony before the European Parliament at 10:30 AM.

Euro-area CPI, Nov. final

2.1%

2.1%

Euro-area industrial production, Oct -1.4% m/m

-1.0% m/m

-0.5% m/m

U.S. housing starts, Nov.

8:30 a.m.

1540K

1552K

Two-day Brazilian COPOM meeting starts -- no change in SELIC rate expected



From: Cetina, Jill

Sent: Friday, December 07, 2001 4:45 PM

_DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne ë

Subject: Market Weekly Report, Dec 3-7

extending U.S. equities' bull run. Sentiment towards Japan planibed new lows – sending dollar/yen higher. Argentine measures to stem capital flight appear to be compounding its problems but there is no evidence of contagion. The rand and South African external and domestic debt remain under Summary: Treasuries retraced last week's rally. The Dow and NASDAQ closed above the 10,000 and 2,000 levels for the first time since August, pressure as Zimbabwe woes, reduced SARB transparency, and exchange controls weigh.

Next week: Next week, the Tankan survey as well as German and U.S. retail sales will be focal points. A 25 bys cut at Twesday's FOMC meeting is expected but the accompanying statement will be key. Argentina's ability to service its debt and possible changes to its fx regime will continue to garner market aftention.

This Work:	Monday:	Twestage	Wednesday:	Thursday	Friday
Angle events - bank holiday	JP machinery orders	French CPI	JP Tankan survey	German retail sales	Jupan industrial production
and/or devaluation?	UK PPI	UK RPI-X	Gentlan carrett account	UK retail sales	Fronch industrial
		Germany ZEW	Tilly concerning to the contract of the	U.S. PPI	podiction
		sirvey	On uncorporation	U.S. retail sales	EMU current account
		FOMC meeting	German 2-year auction		11S CPI
				U.S. mittal claims	
			U.S. current account		U.S. industrial
					poodscalon

Sentiment towards Japan continues to deteriorate. Next week's Tankan report is likely to reinforce that trend.

- downgrade by Moody's in three months. Contacts look for further downgrades to single A, which could force some selling of JGBs by foreign Following on S&P's cut of Japan's long-term local currency rating on Nov 29th, Moody's cut Japan's rating to Aa3 from Aa2, the second pension funds and other accounts.
- The impact of Enron on the banking system and collapse of a construction company, Aoki, refocused attention on the credit quality of the banking system as the TOPIX banking sub-index closed near fresh lifetime lows.

Q3 GDP released this week confirmed the economy is, once again, in a full-blown recession, the fourth since 1989.

from LDP and BOJ officials about foreign asset purchases as a policy option and gains in U.S. equities set the tone this week - weakness in the Flows remain light in foreign exchange markets in the run-up to the year-end. However, worsening sentiment towards Japan, increasing chat yen/strength in the dollar.

- Contacts report that real money accounts have been largely absent from the market with speculative and model accounts driving price action.
- for further yen weakness ahead given growing signals out of Japan that some official action to stem deflationary pressure may be in store. Some While still at low levels on Friday implied volatility on one-month dollar/yen options ticked up to a 2-month high, suggesting participants look contacts report an LDP working group has been established to examine purchases by the BOJ of foreign bonds, suggesting Japan is seriously considering this option.

The economic calendar in Europe is light next week but eventful with Germany's ZEW survey watched as a leading indicator on Germany's IFO business sentiment survey. October German retail sales will also be closely watched for insight into prospects for Q4 German GDP growth. No change in monetary policy from ECB or BOE this week as the market expected. However, Euro-area sovereign debt did weaken post-ECB announcement – suggesting some disappointment in the bond market with the ECB's decision.

Friday's much-anticipated November employment report came in worse-than-expected. However, non-employment related data -- including non-manufacturing NAPM and Michigan consumer confidence -- were better-than-expected. Next week's retail sales data and the FOMC statement could help clarify recovery prospects.

- Treasuries to high volatility in the market and poor liquidity conditions. Some contacts note that the over-capacity that incited the corporate profit recession and subsequently economic recession has yet to be worked off. However, participants in other asset markets seemed more Despite the mixed data, Treasury market participants remain skeptical the U.S. economy is recovering and attribute the ongoing sell-off in optimistic this week about prospects for a U.S. recovery.
- Equity markets continue to price in a recovery with the DJIA and NASDAQ both breaking back above the psychological 10,000 and 2,000 levels, respectively, this week. However, after breaking these levels on Wednesday both indices have traded sideways thus, technical analysts will continue to monitor closely the major indices.

Volatility in Treasury and Eurodollar interest rate futures markets remains high. Treasury yields rose 33 to 40 bps on the week, but the 2 to 10-year Treasury curve steepened by 6 bps on expectations for further Fed easing. In fact, contacts noted if the market believed the economy was recovering the curve should flatten, not steepen.

- Dealers note poor liquidity conditions in the run-up to year-end exaccerbating price movements. Dealers who account for 70% of volume among Treasury dealers remain risk-adverse in the run-up to their book closing on December 31st.
- Furthermore, sizable activity from holders of mortgage backed securities -- selling Treasuries as prices fall and buying Treasuries as prices rise

to adjust their bedges in the absence of activity from other accounts in the run-up to year- end -- has been cited as a factor increasing Treasury market volatility

expect another 25 bp cut at the FOMC's end-January meeting. However, interest rate futures extended their pricing in of Fed tightening in 02' Dealers unanimously look for a 25 bps cut to 1.75% at next Tuesday's FOMC meeting. What is more, 16 of 24 primary dealers reportedly with the spread between the Jan 02' and Dec 02' Furodollar interest rate futures contract widehed by 40 bps on the week to 217 bps

On the week U.S. equities railied, credit spreads have tightened and consumer credit rose. However, other channels of monetary policy transmission became more restrictive as bank lending standards to corporates continue to tighten, Treasury yields once again rose dramatically and the trade-weighted dollar firmed 0.8%. Some contacts suggest tighter monetary conditions could retard an economic recovery or require even more Fed easing given the continued absence of inflationary pressures Argentina's troubles remain contained. However, the GOA's "temporary" measures -- capital controls and effective confiscation of private pension, corporate and bank deposits and bank assets both on- and off-shore - remain negative for the real economy, consumer confidence and social stability as well as difficult to unwind. The results of Economy Minister Cavallo's last ditch plea to the IMF today remain unclear. However, if Fund management holds the line of no Q4 dishursement due to missed program targets it appears unlikely that the government will be able to continue to service its foreign currency debt and prevent further capital flight. Speculation about Cavallo's resignation, a devaluation followed by dollarization and then default continues to circulate as do rumors of the failure of Banco de Galacia and a bank holiday on Monday

From: Cetina, Jill

Sent: Thursday, December 06, 2001 12:42 PM

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne

Subject: Market Noon Report, Dec 6th

Claims data mixed; equities mark time; yen weakens; Treasury prices lower.

US Markets

claims which fell 349,000 in the last week of Nov to 3.6 million. Despite today's sharp drop, continuing claims data remain at manufacturing may be emerging, but a 25 bps cut at next week's Dec 11 FOMC meeting remains priced in to Dec Fed Fund U.S. Economy: While initial claims surprised on the high side, there was much discussion about the decline in continuing levels consistent with recession, and unemployment is still expected to rise. Signs of greater stability in labor markets and futures. (KByrne, 2-2054)

equipment, communication equipment, bank and financial issues. The worst stock performers were oil, semiconductor, retail U.S. equities were narrowly mixed in moderate trading ahead of tomorrow's release of November employment data. Enron Corp. fell 24% to \$0.77, while Dynergy Inc. fell 0.8% to \$28.76. The best stock performers were software, electrical store, beverage and entertainment issues. (JSharer 2-2042)

and some hedge funds buying 2- year notes even as swap desks sold 2- and 5-year notes. Prices, however, remain to 1/8 to 1 employment report might be better than previously expected. Mid-morning comments from NY Fed President McDonough that he did not know if the economy has reached a turning point provided fleeting support to Treasury prices. Dealers note liquidity the market remains extremely poor. However, as lunchtime approached real money accounts, some central banks Treasuries weakened further in reaction to the continuing claims data which some dealers saw as suggesting tomorrow's 1/8 points lower. (JCetina 2-2017)

Global Markets

construction company) has driven the yen sharply lower, particularly against the euro. Traders report that Japanese investors consider the euro/yen play as the least risky given the positive carry. The yen has weakened to 4- and 2-month lows against 1.1%. The euro pared its losses against the dollar as short term players were said to be lightening their short euro positions FX: Negative sentiment towards Japan sparked off by the overnight announcement of the bankruptcy of Aoki (a Japanese the USD and euro, respectively, ahead of the release of Q3 GDP data overnight with expectations ranging from -0.5% to ahead of tomorrow's US employment report. (LQuinn 2-9122) Europe: German bund yields rose 2 to 9 bps, pressured by firm equity markets and expectations for economic recovery. The

ECB met today and kept rates unchanged as anticipated. ECB President Duisenberg indicated conditions were in place for a rebound in 2002 and that current levels of interest rates are appropriate. U.K. gilt yields were unchanged to up 12 bps as a rise in Nov house prices weighed on the market. European bourses were modestly higher, with the FTSE outperforming. (JSharer 2-2042)

Norway's postponement of a final decision on its own output until later this month, rising U.S. stocks and persistently mild Commodities: Front-month Brent and Nymex futures prices are lower for the 3rd straight session. Our contacts question private Russian oil companies' intentions vis-a-vis their government's official offer to cut 150,000 bpd. They also cite weather as factors weighing on prices. (KByrne, 2-2054) Latam: Contacts note a Monday decree requires private pension funds to invest 90% of their monthly inflows in Letes which without defaulting in spite of the IMF's refusal to disburse the Q4 tranche in light of missed targets. Some contacts noted talk resignation. There are rumors President de La Rua is holding an emergency cabinet meeting and talk that Cavallo will resign today. Activity in the NDF market remains limited as debates about the appropriate S/ARS fixing level continue. (JCetina 2is expected to provide about \$1.5 billion in new financing to the GOA. The money could help the GOA squeek through Dec from Medley GA the GOA will devalue to 1.5 and then dollarize and this change would precipitate EconMin Cavallo's

Today's Events: U.S. initial jobless claims, week Dec 1	Actual 475,000	Previous revised to 493K from 488K	Consensus 456K
U.S. Q3 non-farm productivity	1.5%	2,7%	2.1%
U.S. Q3 unit labor costs	2.3%	1.8%	2,3%
U.S. factory orders, Oct.	7.1%	revised to -6.5% from -5.8%	7%

From: Cetina, Jill

Sent: Wednesday, December 05, 2001 12:57 PM

_DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne ë

Subject: Market Noon Report, Dec 5th -- "Recession over" mood prevails

-- "Recession over" mood prevails as service sector NAPM surprises on upside.

-- DJIA and NASDAQ break 10,000 & 2,000 levels; Euro stocks extend gains. USD higher; Treasuries prices gap lower (once again)

suggests expansion. Like the Euro-area and UK service sector PMI releases earlier this morning, the overall activity reading was better-than-expected but the employment component of the NAPM survey remained weak. Thus, triggering the debate between those who believe labor data are a lagging indicator and those who believe the Fed will continue to cut rates if U.S. Markets Non-manufacturing NAPM came in 8 points better-than-expected, rising to just above 50, which unemployment is on the rise. Treasuries extended their earlier losses and are currently down 1/2 to 2 1/2 points on the data and the DJIA's and NASDAQ's appears to have exacerbated today's move as the market was long going into Friday's employment report and next week's Fed meeting, looking for rising unemployment and a 25 bps cut. Dealers report stop-loss levels were triggered. The shape of the rally. Several dealers expressed confusion about the source of the massive selling of Treasuries. Some thought holders of mortgage backed securities were involved, selling Treasuries to lighten up their hedges. One contact noted he thought the NAPM data might have been leaked and that 10-year bond futures seemed to lead the market lower. Market positioning 2- to 10-year curve is little changed despite the sell-off. (JCetina 2-2017)

above the 10,000 level for the first time since late August and the Nasdaq climbed above the 2000 level, marking a 4-month U.S. equities surged in heavy trading, led by strength in tech stocks and positive reaction to today's data. The Dow rose high. Enron Corp. rose 37% to \$1.19, while Dynergy Inc. fell 1.6% to \$30.64. The best performers were software, semiconductor, financial, and retail store shares. (JSharer 2-2042)

Global Markets

by today's data. Participants report that technical, momentum and model driven trades dominate. Corporate and real money FX: The dollar is up sharply against the European currencies, with the Swiss franc undperforming amid optimism triggered fundamental views. The Swiss franc's underperformance was attributed growing expectations of a 50 bps SNB rate cut on (e.g., mutual funds) accounts have been relatively quiet, reportedly awaiting Friday's employment data to reassess their Friday. Rumors of Asian central bank buying of curos are circulating again this week. (LQuinn 2-9122)

Treasuries. The ECB policy board is scheduled to meet tomorrow and no change in policy is anticipated. Similarly, U.K. gilt Europe: German bund yields rose 18 to 22 bps, pressured by strength in equities, better European data and steep losses in European bourses were higher by 2.3% to 4.3%, with the DAX outperforming on gains in chipmaker and software issues. yields climbed 11 to 20 bps. The BOE's MPC, as expected, kept rates steady. Sweden's Riksbank also kept rates steady. (JSharer 2-2042)

Fund sources yesterday to the contrary. The Merval is up 7.5% with some contacts noting local interest to convert pesos into Latin America: EconMin Cavallo suggested today he thought IMF funds would be forthcoming despite comments from other assets. The Brazilian real is slightly weaker. (JCetina 2-2017)

Today's Events:	Actual	Previous Period	Consensus
U.S. service sector NAPM, Nov.	51.3	40.6	42.5
U.S. Challenger survey Corporate layoffs down	25%, 181,412 layoffs in No	ov versus 242,192 in October	

From:

MSN Money Update [MSNMoneyUpdate_032193@ms-moneycentral.customer-email.com]

Tuesday, December 04, 2001 5:46 PM

Sent: To:

ken.dam@do.treas.gov

Subject:

Hark! A stock rally!

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Market Summary (as of 12/4/2001 16:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Hark! A stock rally! Provided by MSN Money

How eager are investors to find reasons to buy stocks? Eager enough to use a UBS Warburg analyst report on the semiconductor sector as an excuse to push stocks sharply higher in late-day trading Tuesday. The Dow industrials saw a triple-digit win, while the Nasdaq composite index surged 3%.

A listless morning was followed by an effervescent afternoon, as shares of tech companies rallied on the slightest sniff of recovery. The Warburg word had the chip slump bottoming at last, and it identified Novellus Systems as a prime beneficiary. Novellus shares cheerily climbed about 10%.

Other market-driving news was mixed. Cisco Systems shares nudged upward on a set of rather understated affirmations from CEO John Chambers. 80ur orders in November were linear and

on expectations, o he proclaimed.

Signals from the retail sector, meantime, were less than delightful. Two closely watched surveys showed that results slackened during the last week despite deep discounting. Inevitable conclusion: holiday sales will be grim.

In other action, shares of Enron -- surprise -- jumped. Almost every one of the 10 most actively traded stocks today sat in the black. Among the day&s biggest gainers were Acterna, boosted by new funding and an analyst upgrade, and buyout target Avant!.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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From: Cetina, Jill

Sent: Tuesday, December 04, 2001 12:27 PM

_DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne

Subject: Market Noon Report -- Dec 4th

-- Quiet end of year trading; markets verge on boring.

-- Market notes NY Post story about Secretary O'Neill; but not a trading factor.

U.S. Markets

modestly flatter. Dealers report flows as light and note Treasuries are currently running into technical resistance to posting Treasuries: After weakening earlier this morning on profit taking, Treasury prices are mixed with the 2 to 10-year curve further gains. Despite a Fed coupon pass in the 02' sector the 2-year note is modestly underperforming. (JCetina 2-2017) U.S. equities edged higher in active trading, led by gains in technology stocks. Enron Corp. climbed 107% to \$0.80 on news performers were electrical equipment, semiconductor, computer, communication equipment, natural gas, oil and bank issues. of a \$1.5 billion line of credit from J.P. Morgan and Citigroup, while Dynergy Inc. rose 11% to \$30.25. The best stock (JSharer 2-2042)

Global Markets

FX: In late morning trading, the dollar added to the gains it made yesterday against the pound and the curo. By contrast, Canadian dollar regained much of the ground it lost against the dollar yesterday with participants commenting that the Canadian dollar had appeared oversold. No new developments were cited by participants as factors in the fx market. (LQuinn 2-9122)

German bund yields were down 1 to 5 bps, with the 10-year bund yield at its lowest level in nearly three weeks, in response to poor Euro-area consumer confidence, greater than expected PPI deflation and rising unemployment. The ECB policy board is scheduled to meet on Thursday but no change in policy is anticipated. European bourses were higher by 0.6% to 1.5%, with Europe: U.K. gilt yields were down 1 to 3 bps despite news of stronger-than-expected house prices and retail sales in November. The BOE's MPC is scheduled to meet today and tomorrow but is generally expected to keep rates steady. the CAC 40 outperforming. Traders noted gains in airline and technology issues. (JSharer 2-2042)

Commodities: Our contacts cited two factors, Middle East tensions and yesterday's more substantial indication by Russia of

further cuts to output, as supporting crude oil prices today in a new, somewhat higher range. Participants await the release of API stock figures later this afternoon, but by and large, Russia remains the focal point. (KByrne 2-2054)

indicate a large participation on the part of the Spanish banks in Argentina's local swap. With regard to the next phase of the swap, an S&P analyst noted that "the truth is that no one believes that Argentina can really (complete) the international part of the swap in three months." Contacts noted talk that Friday's deposits outflow exceeded \$1 billion, more than the \$700 million Latin America: Prices on Argentine debt remain higher from short covering. Some contacts note that the results of the swap Clarin reported over the weekend. One contact noted that locals could buy shares on the Merval and sell ADRs in NY to effectively circumvent fx restrictions and create off-shore dollar receivables. The Brazilian real continues to firm, approaching a 4-month high. (JCetina 2-2017)

From: Cetina, Jill

Sent: Tuesday, December 04, 2001 7:53 AM

_DL_Market Group; Andrew Sacher, ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne ë

Subject: Market Morning Report, Dec 4th

- Moody's cuts Japan's I-term rating (again) -- following S&P's cut last Wednesday.

-- Markets generally quiet; equities higher; G-7 debt mixed; USD little changed.

Global Markets

accounts shortening the duration of their JGB holdings to pare back their exposure to credit risk. Yields on JGBs continue to combined loss of about \$800 million. Banking stocks continue to underperform, declining a further 3.5% on the TOPIX. The further Y2 trillion, bringing current account balances to Y10 trillion, or Y1 trillion above Friday levels when the BOJ sought to aid Enron-stricken money management funds. The FSA Mori's estimated Enron's bankruptcy exposes Japan's banks to a credit risk of bank counterparties in the swap market and has priced in a downgrade to single A. The BOJ drained a downgrade Japan's rating again soon. The JGB curve steepened 5 bps in response to the Moody's news. Dealers reported trade above the yen swap rate -- suggesting the market views the credit risk of the GOJ as higher than the average trigger some forced selling of JGBs by foreign pension funds and other accounts. Contacts note S&P is also expected to Contacts expect a further downgrade of Japan's long-term domestic currency rating to single A by Moody's which could Japan: Moody's cut Japan's credit rating overnight to Aa3 from Aa2 and indicated Japan may be downgraded further. Nikkei closed higher.

Korean KOSPI closed lower, weighed on by losses in Hyundai shares as a labor strike continues. Emerging Asian currencies Emerging Asia: Gains in chip makers and mobile telecom shares helped bourses in Hong Kong, Singapore, and Taiwan to rally. Talks between Korea's Hynix and Micron reportedly are advanced, suggesting a possible merger between the two to form the largest chip maker in the world which could help alleviate over-capacity in the industry globally. However, the were little changed.

BT announced it would lay-off 13,000 workers today. Euro-area sovereign debt prices are modestly higher with the back-end Europe: European bourses are modestly higher. The UK FTSE is outperforming despite losses in British Telecom shares. outperforming, aided by October Euro-area PPI showing further signs of deflation.

downgrade but has retraced these gains in European trading, reportedly on selling from several U.S. banks. Flows remain Fx: Euro/dollar traded in a very tight range overnight. Dollar/yen firmed to Y124.37 following news of the Moody's

to the NY open. Some contacts noted Citigroup and JPMorgan Chase (the two U.S. banks with the largest exposure to Enron) modestly lower by gains in U.S. equity index futures. Equity index futures are a touch higher but suggest no strong direction LatAm: Prices on Argentine debt are higher this morning on short covering. Some contacts note as a result of the local debt triggering a need to cover shorts. JP Morgan re-weighed the EMBI+, reducing Argentina's weight to 3.6% from 10.6%. U.S. Markets Dealers report trading overnight in Treasuries as quiet. Treasury prices reportedly have been pressured swap only \$2.5 billion and \$800 million is outstanding in the Argie 08' and FRB, with reduced liquidity in the bonds head of the IMF's mission left BA overnight, raising questions about prospects for the Q4 disbursement.

Today's Events:	Actual	Previous Period	Consensus Expectation
French consumer confidence, Nov	ov -11	-14	-15
Euro-area PPI, Oct y/y	-0.6%	0.7%	-0.3%
Euro-area unemployment, Oct.	8.4%	8.3% revised to 8.4%	8.4%

are reportedly providing \$1.5 billion in bankruptcy financing to Enron to facilitate its liquidation.

From: Sent:

MSN Money Update [MSNMoneyUpdate_032126@ms-moneycentral.customer-email.com]

Monday, December 03, 2001 5:55 PM

To: Subject:

ken.dam@do.treas.gov Bush, Greenspan digest data

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Leading Indexes(as of 12/3/2001 16:00 hours ET) http://moneycentral.msn.com/investor/market/leading.asp

Quotes supplied by Standard & Poor's Comstock and delayed at least 20 minutes. Data Source: http://www.spcomstock.com

Name	LEVEL	CHANGE	%Change
Dow Jones Industrial Average	9,763.96	-87.60	-0.89%
S & P 500 Index	1,129.90	-9.55	-0.84%
Nasdaq Composite Index	1,904.90	-25.68	-1.33%
Amex Composite Index	818.10	+2.10	+0.26%
Russell 2000 Index	457.03	-3.75	-0.81%

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Market Summary (as of 12/3/2001 16:00 hours ET)

http://moneycentral.msn.com/articles/common/summary.asp Bush, Greenspan digest data

Provided by MSN Money

Investors exited a blockbuster November stock market by selling stocks in virtually every

sector Monday. Violence in the Middle East, coupled with mixed economic data, conspired to take the Dow industrials, the Nasdaq composite and the S&P 500 indices each down about 1%. President Bush and Fed chief Alan Greenspan had lunch together today. Issues on the menu: Manufacturing activity wasn&t as bad in November as it had been in October but the sector remains in contraction mode; U.S. construction spending rose for the first time since April; personal income remained flat in October, though spending rose.

The heaviest dish, however, included international elements: Argentina Israel launched air strikes at Palestinian leader Yasser Arafatæs helicopter base in the Gaza Strip in retaliation for a recent wave of suicide bombings. Prime Minister Ariel Sharon, in a

speech, blamed Arafat for a what he called a war of terror. Meantime, Argentina&s currency and banking crisis continued to fan fears specifically about a major debt default, and general about global economic unrest.

The stock-market reaction to all this: most sectors registered in the red today, led by a 3% drop for both networking and Internet stocks. Wall Street&s most actively traded shares were also mostly down, including those of Cisco Systems, Sun Microsystems and Oracle.

Enron stock rises

The Enron watch continued to focus on fallout at other firms. As the energy-trading company pursues bankruptcy, damage filters out far and wide.

Chubb, for instance, has an 82-cents-a-share exposure to the situation in the form of surety bonds issued to Enron. And John Hancock expects a fourth-quarter write-down of \$100 million to \$125 million due to its Enron exposure.

Enron itself actually saw its shares rise today, having fallen so low that some vulture investors bet on an eventual recovery.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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This email was sent to: ken.dam@do.treas.gov

From: Sharer, James

Sent: Monday, December 03, 2001 5:19 PM

To: DL. Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject: Financial Markets Night Report 12/3/01

-- U.S. equities close weaker, worries on Enron exposure.

-- Treasury prices strengthen on weaker equities, rising tension in Middle East.

-- The dollar firmed against the major currencies, supported by strong U.S. economic data.

U.S. Markets

U.S. equity markets closed with moderate losses in active trading, pressured by weakness in financial and insurance issues. J.P. Morgan Chase and Citigroup weakened on concerns over lending exposure to Enron. Enron rose 54% to \$0.40 after declaring bankruptcy and firing 4,000 employees in Houston. Dynergy fell 10% to \$27.17 on news of a \$10 billion lawsuit from Enron. The worst stock performers were electrical equipment, financial, entertainment, bank, communication equipment and computer issues.

Treasury coupon prices were up 1/8 to 1/2 point in relatively light trading, mainly reflecting weakness in the U.S. equity market, the bankruptcy of Enron, concern over Argentina's financial situation and rising tensions in the Middle East. Treasury auctioned today \$16.0 billion 3-month and \$16.0 billion 6-month T-bills to raise \$7.726 billion new cash. The results were as follows:

3-month T-bill awarded rate: 1.735% Coverage ratio: 1.71 times 6-month T-bill awarded rate: 1.765% Coverage ratio: 1.48 times

The 3-month awarded rate was the lowest since 1958 and the 6-month awarded rate was the lowest on record. Separately, Treasury announced it will auction tomorrow \$19.0 billion 4-week T-bills to be issued December 6 and raise \$3.0 billion new cash. In WI trading the new bills were bid at 1.76%.

The December Federal funds futures contract was unchanged at 1.84%, while the January and February contracts fell 1 bos and 2 bos to 1.77% and 1.71%, respectively.

The January crude oil contract rose \$0.65 to \$20.09 a barrel following Israeli retaliation for a weekend terrorist attack. The January natural gas contract fell\$0.07 to \$2.63 per million btu. Spot gold rose \$2.85 to \$277.30 an ounce on escalation of hostilities in Israel.

Global Markets

The dollar appreciated 0.5% against the euro and was 0.6% firmer against the yen, supported by stronger-than-expected U.S. economic data today. The dollar was little changed against the British pound but 0.7% firmer against the Swiss franc.

Latin American equity markets closed firmer, with the Merval index rising 6.1% and the Bovespa climbing 3.1%. Traders seemed to welcome Argentine efforts to stem a run on the bank system. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 875 and 6000 respectively. Fitch cut Argentina's sovereign debt rating to DDD from C. Brazil's real firmed 1.8% to its highest level since late July, aided by news of a \$288 million trade surplus in November.

The EMBI+ spread narrowed 20 bps to 1048 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also narrowed, including Argentina (-204 to 3168), Brazil (-51 to 925) and Mexico (-4 to 353). The Turkey sub-index edged up 8 bps to 792 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
JPN BOJ Minutes of Oct. 29 Meeting		-	
EUR PPI, Oct.		-0.4% m/m	+0.1% m/m
EUR Consumer Confidence, Nov.		-12	-11
EUR Unemployment, Oct.		8.4%	8.3%
UK House Prices, Nov.		+0.2% m/m	-0.5% m/m



From: Cetina, Jill

Sent: Monday, December 03, 2001 12:48 PM

_DL_Market Group; Andrew Sacher, ClayLowery, Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne ö

Subject: Market Noon Report.

Enron-related risk aversion still a factor. Israeli military action also noted. Oil prices up.

- Argie troubles fester but woes remain contained.

U.S. Markets

U.S. Fixed Income: Treasury prices are little changed. While this morning's data releases suggested the economy might be a and expectations of a weak employment report on Friday are keeping expectations of further Fed easing infact. Mid-morning Argentina. Dealers also noted Israel's bombardment today of the Palestine Authorities' headquarters and a police station as a bit stronger than expected and briefly pressured Treasury prices lower, weakness in the employment component of NAPM the curve had steepened in reaction to concerns about further credit implications of Enron's bankruptcy and events in background factor stimulating buying interest in the 2-year note. Flows are reportedly light. (JCetina 2-2017) While a 25 bps cut at the Dec 11th meeting is fully priced in, the yield on Feb Fed Fund futures fell 3 bps to 1.70%, beginning to price in a further 25 bp cut post Dec11th. Spreads on high grade industrial bonds are 2 to 5 bps wider. Spreads autorelated bonds are about 10 bps on concern about a possible downgrade in earnigns outlook by Ford. Spreads on Dynergy bonds are about 40 to 50 bps wider on news of Enron's \$10 billion lawsuit against its prior suitor. (JCetina 2-2017) U.S. equities moved lower in active trading, pressured by the implications of the Enron Corp. bankruptcy, such as exposure of pressured by concerns over Argentina's new limits on currency transfers. In addition, Ford Motor was reported to be ready to warn of a larger-than-expected earnings decline. The worst stock performers were electrical equipment, financial, software, J.P. Morgan and Citigroup. Dynergy Inc fell 6.4% to \$28.41 on news of Enron's lawsuit. Financial stocks were also bank and insurance issues. (JSharer 2-2042)

Global Markets

against major currencies. Ex markets remain abuzz over Enron. Finally, a few participants thought Greenspan's fx comments FX: After an initial positive reaction to the NAPM data, the USD while settling into a narrow, albeit higher, trading range on Friday were significant, expressing shock markets hadn't taken note. (LQuinn 2-9122) Europe: U.K. gilt yields were down 1 to 6 bps following news U.K. manufacturing declined for the ninth straight month and that confidence among U.K. service-industry firms fell to a three-year low in Nov. The BOE MPC is scheduled to meet later Thursday but no change is anticipated. European bourses were weaker, with the FTSE underperforming. (JSharer 2-2042) this week but is expected to keep rates steady. German bund yields were down 1 to 5 bps, supported by declines in equity markets. Enron Corp.'s bankruptcy spurred some safe-haven interest in bonds. The ECB board is scheduled to meet on

informal sector. Argic bond prices have retraced and are now higher, which dealers attribute to short covering. The Brazilian LatAm: Partial dollarization in Argentina has furthered speculation about the future of the currency board and the mechanism not have sufficient reserves to dollarize given its lending activities to Banco Nacion (however, deposit withdrawal restrictions real is firmer -- helped by dollar debt issuance by local corporates, the proceeds of which are to be repatriated. Also, contacts A local contact reported substantial buying of non-perishables by locals on fears of a peso devaluation. Most contacts agreed of price adjustment -- dollarization followed by deflation versus devaluation. Some contacts note that the central bank may might allow convertibility ratios to be stretched) while others noted that dollarization would require congressional approval. that the measures just buy the banking sector some time and are negative for consumer sentiment and employment in the note Argie dollarization would be real supportive. (JCetina 2-2017)

				Nov Govt sources reportedly saying down 12 to 13% y/y (better-than-initial some earlier estimates) but contacts q	
Expectation	0.1%	2.3%	42.0	er-than-initial son	due out tonight.
Previous Period	%0	-1.7% revised	39.8	ng down 12 to 13% y/y (bette	Patacones. Official release
Actual	%0	2.9%	44.5	Govt sources reportedly sayin	eccipts cash, GOA bonds, Lecops and Patacones. Official release due out tonight.
Today's Events:	ome. C	U.S. personal spending, Oct.		sipts.	the breakdown of tax receipts -

question

From: Cetina, Jill

Sent: Monday, December 03, 2001 7:49 AM

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne ë

Subject: Market Morning Report, Dec 3rd

-- Equities lower; Treasuries and Euro-area debt prices up; and USD lower.

Contagion from Argentine capital flight limited; but Spain's IBEX underperforms.

-- U.S. personal income and outlays; NAPM later this a.m.

persistent USD strength despite the U.S. current account deficit and noted that the curo is unlikely to eclipse the USD anytime Some European contacts noted Chairman Greenspan's Friday afternoon comments about fx. Greenspan said he expects to see Global Markets Fx: The USD is modestly firmer against most major currencies, with dealers reporting flows as light. soon given higher U.S. productivity and labor market rigidity in Europe. Japan: The Nikkei declined 3%, weighed on by S&P's downgrade of NTT and NTT DoCoMo as well as declines in shares of liquidity it injected into the banking system on Friday in response to the fall-out from Enron's woes. Excess reserves declined money management firms negatively impacted by Enron's bankruptcy. Banking shares declined 2.9% today, falling to their increduous the U.S. would suggest the BOJ buy foreign bonds. He added more liquidity or a weak yen would not lead to a lowest level on the TOPIX since Jan 1984 and underperforming the broader TOPIX. The BOJ began to drain some of the by Y1 trillion to Y13 trillion. Pariticipants noted comments from Governor Hayami in today's FT. Hayami stated he was recovery in Japan absent corporate and banking reforms. Hayami also highlighted problems with a rapid fall in the yen. However, the yen was little changed in response. Overnight the MOF's Kuroda reiterated the euro is undervalued.

Emerging Asia: Taiwan shares outperformed following this weekend's parliamentary election which resulted in the ruling reserve requirements by as much as 2 percentage points. HK forwards moved very slightly in response to developments in party gaining control. However, other regional bourses were lower. Philippine CB Gov Buenaventura said he would cut

Argentine bonds are down about 3 points. A few contacts this morning note given the GOA's weekend announcement they Individuals can only withdraw \$1,000/month, and international payments require central bank approval. FX flows will be capital, currency and interest rate controls and partially dollarized the economy to stop a bank run and slow capital flight. Latin America: After \$700 million in deposits withdrawals on Friday, over the weekend EconMin Cavallo announced limited to trade and scheduled payments. Cavallo blamed the crisis on "speculators at home and abroad." Prices on find it difficult to believe that the IMF could disburse further funds.

U.S. Markets Equity index futures are lower and suggest a lower open to the NASDAQ. Declines in equity futures is

providing modest support to Treasury prices in early trading. Enron declared bankruptcy -- drawing continued market speculation about what positions Enron might need to liquidate. Participants are focusing on the release of U.S. data later morning. The CFTC's commitment of traders report shows a further paring back in long positions in 5-, 10- and 30-year Treasury futures while long Eurodollar futures positions remain near historic high levels. This suggests the market continues to look for Fed easing but is paring back on duration.

Today's Events:	Actus	7	Previous Period	Consensus Expectation
Japan, vehicle sales Nov	-9.3% y/y	-7% y/y	n/a	
Germany PMI	43.9	42	43.6	
U.S. personal income, Oct	8:30 a.m.	940	0.1%	
U.S. personal spending, Oct	8:30 a.m.	-1.8%	2.3%	
U.S. NAPM, Nov.	10:00 a.m.	39.8	42.0	
Argentine tax receipts, Nov.	Tonight after ma	arket closes ru	Tonight after market closes rumors are for a 11.5% to 13% y/y decline	13% y/y decline

From:

Byrne, Kathleen

Sent:

Friday, November 30, 2001 5:48 PM

To:

_DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject:

Global Market Developments, Week of Nov. 26-30, 2001

This week, market participants moderated their expectations for near-term U.S. economic recovery as well as their risk appetites, factors that weighed on the dollar and selected equity markets and tended to support bonds. Alongside these factors, a plethora of dovish comments by Federal Reserve officials also increased expectations for further monetary easing by the FOMC in December. In terms of specific events, the week was perhaps most noteworthy for the downgrade of Enron Corporation and the long-awaited downgrade of Japan's sovereign debt

Next week is an important one for U.S. data, including Friday's release of the Employment Report for November, which comes just ahead of the December 11 FOMC meeting the following week. In addition, the Bank of England and ECB will hold policy meetings.





From: Cetina, 別

Sent: Friday, November 30, 2001 8:00 AM

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne ö

Subject: Market Morning Report, Nov 30th

- Little apparent impact of MSCI reweighting on Nikkei and fx in Asian session; participants now look forward to London and NY closes for possible flows.

-- Enron woes spillover to Japanese money market funds, forcing a response from BOJ.

-- Revised Q3 GDP and Chicago PMI due out later this morning.

Global Markets Fx: The dollar is little changed against the yen and modestly weaker against the curo with dealers reporting moderate flows but no massive business thus far from the MSCI reweighting. The Swiss franc remains weak following unsupportive comments from the SNB's Roth yesterday and weaker-than-expected Swiss leading indicators today.

fresh record high, but in line with forecasts. Household spending came in better-than-expected, rising 3.1% m/m sa, the first rise since March. Some contacts dismissed the spending data as due to one-off factors. The Nikkei eeked out modest gains Japan: Nov Tokyo CPI fell by 0.2% m/m sa, the biggest y/y decline since last Oct. Unemployment edged up to 5.4%, a despite the weak data and today's MSCI reweighting.

institutions and had no immediate impact on the yen. JGB yields fell 1 to 3 bps across the coupon curve with the intermediate The BOJ injected an additional Y5 trillion into the money market, increasing current account balances to Y14 trillion -- the highest level since Mar '00. The move was in response to withdrawals from money management funds. While five money spread to other money funds not holding Enron paper. The injection of liqudity was readily absorbed by Japanese financial funds' values fell below par as a result of their holdings of yen denominated paper issued by Enron, redemptions reportedly portion of the curve performing well despite fresh issuance today in the 5-year sector.

Moody's upgraded South Korea's outlook to positive from stable, signalling an upgrade could be in the cards if Korea makes further progress on corporate and financial sector reforms. The Korean Kospi extended its gains while better-than-expected Emerging Asia: Fitch cut the outlook on Indonesia's I-term foreign currency rating to stable from positive, citing recent indications Indonesia might grant comparable treatment to its 06' Yankee bond in upcoming Paris Club negotiations. Q3 GDP data out of Hong Kong bolstered shares on the Hang Seng. Europe: Euro-area fixed income is rallying with the short-end outperforming on the hope better-than-expected consumer and producer price data could increase the near-term prospect of an ECB rate cut and playing catch up to Treasuries' afternoon gains yesterday. The ECB meets next Thursday. European bourses are higher, bolstered by gains in telecom shares.

closings today. U.S. equity index futures are little changed. Some contacts note today's WSJ article that Merrill Lynch is in merger talks with several suitors. Attention now turns to Q3 GDP and Chicago PMI data as well as comments from Fed Asian session. Dealers report two-way flows but trading remains choppy ahead of month-end and, for some firms, year-end U.S. Markets Treasury prices are little changed this morning, retracing earlier weakness in longer-dated issues during the officials (including Chairman Greenspan) due to speak later today.

Today's Events:	Actual	Consensus Expectation	Previous Period
Japan unemployment rate, Oct.	5.4%		5.3%
Tokyo consumer prices, Nov. sa	-0.2%		-0,4% m/m
French unemployment, Oct.	8.9%		9.1%
Eurozone CPI, Nov.	2.1%		2.4% y/y
U.S. O3 GDP 1st revision	8:30 a		-0.4%
Canadian O3 GDP 1st revision	8:30		-0.4%
Chicago PMI, Nov	10:00		46.2

From:

MSN Money Update [MSNMoneyUpdate_031928@ms-moneycentral.customer-email.com]

Thursday, November 29, 2001 5:48 PM

Sent: To:

ken.dam@do.treas.gov

Subject:

Big finish follows mixed morning

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Name	LEVEL	CHANGE	%Change
at tarino			
Dow Jones Industrial Average S & P 500 Index Nasdaq Composite Index Amex Composite Index Russell 2000 Index	9,829.42 1,140.20 1,933.26 813.39 463.33	+117.56 +11.68 +45.29 +9.40 +9.63	+1.21% +1.04% +2.40% +1.17% +2.12%

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Market Summary (as of 11/29/2001 17:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Big finish follows mixed morning Provided by MSN Money

Investors are working hard to believe in an economic rebound ... hard enough today to reverse a two-day slide. The Dow, Nasdaq and S&P indices all closed higher after a lateday rally lifted the Dow industrials by triple digits.

A trio of economic reports guided trading. Orders for durable goods surged a record 12.8%, though they were heavily skewed by rebounding orders for aircraft and defense materials. Sales of new homes rose modestly in October, indicating that housing remains the economy Es star sector.

And yet in the day&s most troubling development, joblessness persisted to climb, with continued unemployment claims posting their biggest one-week rise in 27 years. In aggregate unemployment numbers, it Rs 1982 again. For the latest in pink slips, see MSNBCAs layoff list.

The late rally was pushed in part by President Bush&s optimistic afternoon assessment of progress in the war on terrorism. Another bullish factor: cautiously optimistic comments from tech company presenters at a CS First Boston analyst conference.

Following the flameout

The Enron flameout got even messier today, as the cratered stock caved even further and bankruptcy proceedings appeared imminent. If Enron -- with its \$61.8 billion in assets -files for bankruptcy protection, it would be the largest such filing in history.

Collateral damage is mounting as well, with EnronÆs trading partners and lenders, such as Citigroup and JP Morgan Chase, on the hook for huge sums. MSN MoneyEs Jon Markman explores the Enron implications and alternatives in a recent column.

The collapse is causing lawmakers and others to begin exploring exactly what happened. No doubt one prime witness would be Jeffrey K. Skilling, EnronEs ex-CBO who quit just three months ago. His reasoning then, according to a Businessweek story: "Hey, there's a lot more to life than just working." The company, he insisted at the time, was in fine shape.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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From: Cetina, Jill

Sent: Thursday, November 29, 2001 5:24 PM

_DL_Market Group; Andrew Sacher, ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne ë

Subject: Market Closing Report; Nov 29th

-- Latin assets under pressure; Treasuries rally; stocks higher.

reweighting impacting equities and fx; end of Argie local swap and financial year-end for some firms on Wall St. - Tomorrow an event packed day with Q3 GDP expected to be revised down; Morgan Stanley Capital Index

U.S. Markets Dollar little changed in the NY afternoon headed into tomorrow's MSCI reweighing.

between the Jan and Dec 2002 Eurodollar futures contracts narrowed 14 bps to 184 bps, suggesting some pricing out of a U.S. continued about the impact of Enron's woes on credit markets. Fed Fund and Eurodollar futures rallied. The Dec Fed Fund Treasury yields fell 11 to 19 bps across the coupon curve, steepening the curve. Liquidity remained poor and speculation future fell 3 bps, almost fully pricing in a 25 bps cut at the Dec 11th FOMC meeting to a 1.75% Funds rate. The spread economic recovery.

expect to be reversed. One large U.S. bank is forecasting real appreciation to 2.30 by Feb. Local Brazilian interest rates also However, others noted that the Nov. dollar/real futures expiration tomorrow triggering some dollar buying today, which they IMF will not delay the Dec disbursement and that it would seek alternative financing if IMF aid was delayed. The Brazilian the 1-month NDF at 175%; and the overnight rate closed at 200%. After the market closed, Argentine authorities stated the Global Markets Latam: Argentine assets closed near the day lows -- the Argic EMBI+ at 3,242 bps; the implied yield on real depreciated 2.7% with some contacts attributing the move to stepped-up corporate hedging on concerns about Argie. (many contacts expect the COPOM would have to raise rates substantially in the event of an Argie deval). However, the suggest a lack of concern about some imminent change in Argentina's fx regime as short-dated rates were little changed Brazil C bond did close 1 2/3 points weaker on profit taking and nervousness over Argentina. The Russian EMBI+ sub-component outperformed today, narrowing 8 bps to 766 bps following Moody's upgrade of Russia's expected, to Baa2 from Baa3. The South African rand, however, depreciated by 4.3%, after SARB Governor Mboweni said currency year-to-date from the Brazilian real. Some contacts are now looking for the rand to depreciate further to 18 rand to 1-term rating today to Ba3 from B2. Moody's also upgraded South Africa's 1-term rating today, a bit earlier than the market the central bank had no target for the rand. With today's move the rand now usurps the title of second worst performing the USD over the next 3- to 6-months.

Consensus Expectation Tomorrow's Events:

5.3%	-0.4%	9.1%	-0.4%	-0.4%	46.2
5.4%	-0.1%	%0'6	-1.0%	%9'0-	45.5
			8:30 a.m.	8:30 a.m.	10:00 a.m.
lanan unemployment rate. Oct.	Tokyo consumer prices. Nov. sa	French unemployment Oct.	11 S O3 GDP 1st revision	Canadian O3 GDP 1st revision	Chicago PMI, Nov

From:

Byrne, Kathleen

Sent:

Thursday, November 29, 2001 12:36 PM

To:

_DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject:

Market Noon, Nov 29th

-- Treasuries' rally continues on concerns over Enron, timing of U.S recovery. Dollar, stocks are better bid, too, however.

U.S. Economy: Initial claims and help wanted data confirmed deteriorating employment conditions, while the highly volatile durable goods series spiked much higher, with a reasonable improvement in ex-defense orders. New home sales were very modestly higher. All in, participants have this week adopted a more tempered view about the timing of economic recovery, and are currently pricing in a 75% chance of 25 bps of easing at the Dec. 11 FOMC meeting. At this juncture, later contracts do not suggest further easing beyond Dec., or a return to a tightening mode before late Spring. (KByrne, 2-2054)

U.S. Treasuries: Prices rose further following the release of weaker-than-expected labor market data and on some continued concern about the repercussions from Enron's woes. Today's NYT reports Enron had to liquidate substantial positions in Eurodollar interest rate futures -- causing some dealers to describe Enron's collapse as a mini-LTCM and wonder what other positions Enron might still have on. While the rest of coupon curve is steeper, 2-year note is underperforming, reportedly on profit taking by hedge funds and on some talk Fed Gov Meyer's comments earlier this week may have been taken out of context. Several dealers noted today's buyback as a factor providing support to longer-dated Treasuries. All dealers continue to describe liquidity conditions in the Treasury market as "terrible," due to limited risk appetite and high volatility. (JCetina 2-2017)

U.S. Equities: Some contacts noted a moderation in bearish sentiment after a two-day sell-off, and admitted that U.S. indices may have been over-bought and technology share price/earnings ratios, over-stretched. In that context, evidence of sluggish U.S. performance and financial fall-out from Enron's difficulties had given investors an opportunity to take profits, whereas today, stocks are currently bid on durable goods orders and new home sales data insofar as the releases did not contain negative surprises. (KByrne, 2-2054)

Foreign Exchange: Dollar is off overnight lows against the major currencies, in what traders continue to categorize as relatively light volumes. Most view the general weakness of the dollar this week as a correction, not a fundamental change in market view. Participants remain reluctant to make directional calls on the curo vs. the dollar, until more solid economic data becomes available. In contrast, the fundament view on the yen appears to be distinctly negative with participants wondering when (not if) the yen will fall to 130. (LQuinn 2-9122)

LatAm: In today's FT the Argentine central bank's Blejer stated bridge financing was being looked into to meet year-end debt payments but expressed confidence the IMF Q4 "disbursement would come." Some participants thought the CB might provide direct financing to the GOA if the IMF does not disburse funds in Dec. The CB is already an indirect source of funds to the GOA via its repo activity to state banks. Other contacts thought the GOA might force local corporates to buy a "patriotic bond" as a bridge. The Argie EMBI+has widened 211 bps to a historic high of 3,202 bps. Dealers cite several factors weighing: concern about shaky IMF support; expected weakness in Nov tax receipts; the conclusion Friday of the local swap; and the impending reduction in Argie bonds from the EMBI+ index post-local swap. Concern about Argie's currency board also continue to mount. Implied yields on one-month Argentine NDFs have risen further and now stand at 150% and overnight peso rates are at 200%. Some contacts note deposit data released last night for Monday showed early redemptions of CDs, suggesting capital flight may be poised to accelerate. (JCetina 2-2017)

Today's Events:	Time	Actual	Previous Period
Consensus Expectation			
US, Initial Jobless Claims, week ending Nov. 24	8:30AM	488 K	434 K (rev. from 427 K)
438 K			
US, Durable Goods Orders, October , m/m	8:30 AM	12.8%	-9.2% (rev. from -8.5%)
2.0%			
Durable Goods Ex. Defense		5.6%	-10% (rev. from 9.2%)
Durable Goods Ex. Transportation		3.4%	-6.4% (rev. from -5.5%)
US, New Home Sales, October	10:00 AM	880 K	878 K
853 K			



From: Byrne, Kathleen

Sent: Thursday, November 29, 2001 7:59 AM

To: __DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject: Market Morning Report, Nov 29th

 Prospects of Enron's imminent collapse, concerns about U.S. economy and possible action in Iraq weigh on dollar, and selected stock markets.

Foreign Exchange: Dealers noted confusion and re-adjustment in fx markets today, as the Beige Book's confirmation of a still-weak U.S. economy and the specter of Enron's demise weighed on sentiment towards the U.S. and reduced the chances of near-term dollar appreciation attendant with MSCI's reweighting. Short term participants cut back on long dollar positions put on in anticipation of MSCI-related flows; for the first time in seven sessions, dollar/yen dipped below the Y123 level. Euro/dollar is currently testing the \$0.8900 level. Our contacts cited model-driven buying of euros and also noted that a key technical level in euro/yen (Y109.50) held. The ECB's Welteke said "when you look at purchasing power ... then I have a feeling the yen is overvalued and the euro is undervalued. We are interested in a strong value of the euro ... " The MOF's Kuroda agreed with Welteke that the euro is undervalued.

Japan: Despite a further slump in industrial output, JGB yields rose 2 to 4 bps across the coupon curve, impacted by concerns about potential sales to offset losses on Enron bonds. The Nikkei firmed somewhat, however, as investors shifted into defensive stocks. The BOJ policy board left policy unchanged, as expected, but EconMin Takenaka and Vice FinMin Muto urged the central bank to consider purchasing foreign bonds, with Muto noting "that [option] is the same as currency intervention."

Emerging Asia: Stock markets in Singapore and South Korea in particular declined from the prospect of Enron's bankruptcy. The Philippine market rose today on better than expected GDP data (2.9% y/y), and is notably outperforming in the region on the week (+3.7%).

Emerging Markets: In emerging Europe, the marked underperformance of Turkish assets reflected concern over a potential military action in Iraq, Turkey's neighbor, as well as Turkey's hardened stance ahead of talks with Cypriot authorities next week. Against this backdrop, the release of the latest IMF loan tranche for Turkey elicited little reaction. Argentine bond prices are somewhat lower (EMBI+ sub-index at 3000) but the Brazilian real is significantly weaker.

Commodities: Oil prices are little changed to firmer, reflecting a very subdued market as companies review their exposure to Enron Corporation and await its imminent financial collapse. Dealers also remain vigilant about Russia's intentions to adjust output but now appear confident of smooth flow from Iraq.

U.S. Assets Overnight

Front-month futures contracts for major U.S. stock indices are somewhat higher, conveying little about the likely direction of prices at the New York open. U.S. Treasuries are rallying across the coupon curve in anticipation of weak initial claims and durable goods reports later this morning.

Today's Events:	Time	Actual	Previous Period	Consensus
Japan, Industrial Production, October		-0.3% m/m	-2.9% m/m	-0.9%
m/m Japan, Vehicle Exports, October France, Business Confidence, November Italy, CPI (harmonized), November		4.4% m/m 89.0 2.3%	-5.0% y/y 93.0 2.5% y/y	92.0 2.3%
y/y US, Initial Jobless Claims, week ending Nov. 24	8:30AM		427 K	438
K US, Durable Goods Orders, October	8:30 AM		-8.5%	2.0%



From: Sent:

MSN Money Update [MSNMoneyUpdate_031844@ms-moneycentral.customer-email.com]

Wednesday, November 28, 2001 5:53 PM

To: Subject: ken.dam@do.treas.gov Enron injures shaky market

Receive the chanced market report in HTML - Simply signin and select "HTML" http://moneycentral.msn.com/Comcenter/options.asp?returnURL=/Comcenter/email.asp

The following data is best viewed in a Fixed Width font such as Courier.

Leading Indexes(as of 11/28/2001 17:00 hours ET) http://moneycentral.msn.com/investor/market/leading.asp

Quotes supplied by Standard & Poor's Comstock and delayed at least 20 minutes. Data Source: http://www.spcomstock.com

Name	LEVEL	CHANGE	%Change
Dow Jones Industrial Average	9,711.86	-160.74	-1.63%
S & P 500 Index	1,128.52	-20.98	-1.83%
Nasdaq Composite Index	1,887.97	-48.00	-2.48%
Amex Composite Index	803.99	-4.17	-0.52%
Russell 2000 Index	453.70	-7.01	-1.52%

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http://money.msn.com/community/highlights.asp

Market Summary (as of 11/28/2001 17:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Enron injures shaky market Provided by MSN Money

Listen carefully, and you can almost hear investors' confidence in a quick recovery cracking.

>

The Dow, Nasdaq and S&P 500 all tumbled in Wednesday trading. With signs of an economic rebound few and far between, Dow 10,000 suddenly seems miles away. Only yesterday, the index came within 8 points of that magic five-figure mark. Today, just a handful of the Dow 30 stocks posted gains.

<D>

Pederal Reserve officials spooked the market with talk of further interest rate cuts. With rates so low already -- the Fed funds rate is 2% -- the central bank's signals are starting to smack of desperation. And yet, what can they say? Their own ôBeige Bookô

report on regional economies offered little cause for optimism Wednesday afternoon, showing that the slowdown deepened in most regions in recent weeks; luxury sales have suffered, though discounters have seen increasing demand.

ôThere are more signs of weakening than strengthening,ô UBS PaineWebberÆs Art Cashin told CNBC from the New York Stock Exchange floor, referring to the Fed report. Cashin also noted that the FedÆs apparent lack of effect on the economy throughout 2001 is arousing fears that weÆre confronting ôa different kind of phenomenono during this business cycle. And finally, Cashin said investors are openly frustrated with a ôwallowingô federal stimulus effort.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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This email was sent to: ken.dam@do.treas.gov

From:

Byrne, Kathleen

Sent:

Wednesday, November 28, 2001 5:03 PM

To:

_DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject:

Closing Global Financial Markets - November 28, 2001

-- S&P and Moody's downgrades of Enron's corporate rating to just below default status around mid-day was a focal point of financial market activity in the afternoon.

The Fed's Beige Book confirmed persistent economic weakness in the U.S.

Foreign Exchange: The dollar closed weaker against all major currencies, weighed down by doubts about near-term recovery prospects in the U.S. and a second day of decline on U.S. equity markets.

U.S. Treasuries: Treasuries partially retraced earlier gains after a poorly-received \$21 billion two-year auction weighed. Supply concerns also weighed after White House Budget Director Daniels opined that the U.S. federal budget would not return to balance before FY 2005. Coupon curve steepening eased somewhat later in the day, with the 2-to-30 year spread closing only 4 bps higher and the 2-to-10 year, 2 bps higher. The steepening reflected this week's dovish comments by Fed officials, a flight-to-quality in light of Enron's problems and declining equity prices, and this afternoon, the Beige Book's confirmation of a still-weak U.S. economy.

Analysts noted the large size of today's two-year auction vis-a-vis the higher-than-expected yield of 3.008% (versus projections of 2.99%) and a very low bid to cover ratio of 1.51, vresus an average 2.47 bid to cover in the past ten auctions.

U.S. Equities: Major indices extended their losses in afternoon trading, as the specter of Enron's imminent financial collapse weighed on financial sector shares, especially Citigroup and JP Morgan.

Argentina: The implied yield on one-month Argentine peso NDFs moderated only slightly in afternoon trading to 115% but participants continue to question the viability of the country's exchange rate regime and withdraw deposits. The central bank's international reserves fell 1.1% between last Friday and Monday to \$21.029 billion, and bank deposits for the same time frame fell 0.08% to \$72.407 billion. This afternoon, Argentina postponed the start of of the provincial level debt swap, and will now take swap offers up until December 7.

Commodities: Oil prices rallied briefly on growing speculation that Russia will cooperate with OPEC in cutting output to stabilize the market. Participants appeared to cover short-positions but profit-taking left prices on the front-month Nymex contract little changed and on dated Brent, somewhat lower.

Tomorrow's Events:	Time	Actual	Previous Period	Consensus
Expectation Japan, Industrial Production, Or Japan, Vehicle Exports, Octobe France, Business Confidence, I Italy, CPI (harmonized), Novem US, Initial Jobless Claims, wee US, Durable Goods Orders, October	er November Iber k ending Nov. 24		-2.9% m/m -5.0% y/y 93.0 2.5% y/y 427 K -8.5%	-0.9% m/m 92.0 2.3% y/y 438 K 2.0%



From:

Byrne, Kathleen

Sent:

To:

Wednesday, November 28, 2001 1:08 PM _DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Market Noon Report, Nov 28th

Subject:

-- S&P's, and now Moody's downgrades of Enron are weighing on U.S. equity markets and, among other factors, giving Treasuries a flight-to-quality bid.

-- Investors focused more acutely on Argentina's peg.

U.S. Fixed Income: Treasuries extended their rally today with the short end of the coupon curve outperforming, steepening the curve. Some dealers noted yesterday's weak consumer confidence data, dovish comments from Gov Meyer, and increasing worries that the economy may not be recovering near-term as factors bolstering Treasury prices. Mid-morning news that S&P downgraded Enron to junk grade helped the short-end extend its gains though some dealers said the impact of the news on the Treasury market was unclear -- i.e., were accounts unloading Enron and buying Treasuries or was Enron itself engaged in transactions in the Treasury market. Dealers note liquidity in the market remains poor and volatility remains high, worringly near LTCM levels. At 1 p.m. results of today's \$21 billion 2-year note auction will be announced. In WI trading the 2-year note is currently priced at 2.97%. (JCetina, 2-2017)

Enron: S&P downgraded Enron by six notches to B- from BBB-, bring the company's debt to junk bond status and just one notch above default grade. S&P also suggested that the bankrupety of Enron is a "distinct possiblity" if the merger fails. Enron bonds fell 30 to 40 points in price terms this morning following the downgrade with dealers noting substantial forced selling of the bonds as a result of the downgrade to junk. Contacts report unsecured Enron debt is currently trading at \$25.50. Other credits in the sector are reportedly about 20 bps wider on the day in a defensive reaction. Moody's later downgraded Enron by five notches to B2, citing concerns about Enron's liquidity. (JCetina 2-2017)

U.S. Equities: Concerns about the timeliness of U.S. recovery and the durability of the recent tech rally weighed on the Nasdaq today. S&P's downgrade of Enron weighed heavily on its share price, as the ratings agency cited its own doubts about the completion of the proposed Dynegy merger. Market rumors that Dynegy would withdraw its offer weighed heavily on financial sector shares, which led declines on the DJIA and S&P 500. Following the subsequent downgrade by Moody's, the NYSE halted trading of Enron shares. (KByrne, 2-2054)

FX: The dollar is off against major currencies in the wake of fixed income market developments here and abroad. Key factors cited by market participants include the smaller than anticipated S&P downgrade of Japan's government debt and growing doubts about the significance of the end of month MSCI re-weighting for fx markets. (LQuinn 2-9122)

Latin America: Contacts look tonight for the release of deposit data for Monday, the first day after the central bank capped interest rates that local banks could pay on deposits. The overnight peso rate has spiked to 97.5%, up 5,250 bps, suggesting substantial deposit outflows. Forward points on Argentine NDFs continue to move to the right with the implied yield on the one-month now at 118%. (JCetina 2-2017)

Commodities: Today's EIA stock data corroborated yesterday's bearish API report and weighed especially on the Nymex front-month contract, although prices have since partially retraced and continue to hold within recent ranges as investors factor in uncertainty over Russia's intentions and the possible disruption of Iraqi

supply. (KByrne, 2-2054).

Today's Events:	Time	Actual	Previous Period	Consensus
Expectation Japan, Retail Sales, October, Euro-zone M3, October, y/y Poland, Monetary Policy Council	il meeting (concl	-4.9% 7.4% lusion) 11.5%	-3.0% 7.6% 13%	-3.5% 6.9% 11.5%
(150 bps cut) \$21 billion 2-year note auction Fed Beige Book		2:00 PM		



From: Sent: MSN Money Update [MSNMoneyUpdate_031760@ms-moneycentral.customer-email.com]

Tuesday, November 27, 2001 7:33 PM

To: Subject: ken.dam@do.treas.gov Market dips, jumps, dives

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Quotes supplied by Standard & Poor's Comstock and delayed at least 20 minutes. Data Source: http://www.spcomstock.com

Name	LEVEL	CHANGE	%Change
**			
Dow Jones Industrial Average	9,872.60	-110.15	-1.10%
S & P 500 Index	1,149.50	-7.92	-0.68%
Nasdaq Composite Index	1,935.96	-5.27	-0.27%
Amex Composite Index	808.16	+4.18	+0.52%
Russell 2000 Index	460.71	-0.51	-0.11%

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Market Summary (as of 11/27/2001 17:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Market dips, jumps, dives Provided by MSN Money

How much confidence do investors have in the Dow 10,000 level? Apparently about as much confidence as consumers have in the economy.

After a down morning, the Dow industrials flirted with five figures again Tuesday. But as soon as the index came within eight points of hitting the 10k target, the Dow average dropped like a rock, closing more than 100 points off for the session. The Nasdaq and S&P followed suit.

One major driver: consumer confidence. The Conference Board, a New York research group, said its much-watched index fell in November. That surprised economists, who had predicted a jump. The figure is important because it can be a predictor of spending, and thus of earnings.

On the other hand, there was no evidence that the last remaining economic prop -- housing -- is buckling. Sales of U.S. existing homes rose 5.5% in October, rebounding nicely from its Sept. 11 aftershocks.

On the corporate front, America Online moved some stock values with its announcement of big deals with Sprint and Level 3 Communications. The stock moving most was Level 3Æs -- up about 15%.

The dayEs 10 most actively traded stocks offered a mix of winners (such as Enron, which is renegotiating its Dynegy deal) and losers (such as Amazon.com, a victim of growing retail sales fears).

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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This email was sent to: ken.dam@do.treas.gov

From: Byrne, Kathleen

Sent: Monday, November 26, 2001 12:18 PM

To: __DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject: Market Noon Report, Nov 26th

Trading in various asset classes continues thin and quiet after holidays in the U.S. and Japan.

-- In foreign exchange markets, MSCI's global stock index reweighting later this week remains the focus.

Foreign Exchange: Dollar modestly stronger over the morning in light trading (average for post-Thanksgiving week). Market focus is on the week-end MSCI re-weighting (which will be dollar and sterling positive), with lingering suspicions regarding future Japanese foreign bond buying fx policy. Market participants report dwindling liquidity conditions as investors, seeking to preserve profits, sideline themselves. (LQuinn 2-9122)

U.S. Equities: Dealers described activity as flat; the Nadaq has partially retraced from morning highs (reached on gains in chipmaker shares) and other major indices are now trading in negative territory, the latter weighed on by declining oil sector shares. Participants remain focused on Enron after last week's 48% fall in its share price, amid ongoing concerns that the company's dwindling cash supplies could lead Dynegy to reconsider its takeover bid. (KByrne, 2-2054)

U.S. Treasuries: Treasury prices are higher across the coupon curve, with the back-end outperforming, flattening the 2 to 10-year curve. The 2-year note is trading special in the repo market (i.e., rate to borrow securities from dealers is near zero) and the Fed conducted a coupon pass in the sector this morning, factors normally supportive of price. Nonetheless, the 2-year note continues to underperform modestly ahead of Wednesday's auction and gains in stocks as well as talk that a recovery could come as soon as Q1 '02. Dealers report good volume and note from a technical perspective Treasury prices look to be forming a base after this month's sharp sell-off. (JCetina 2-2017)

Interest Rate Futures: Market participants widely expect the Bank of Canada to cut interest rates by 50 basis points at tomorrow's policy meeting; the move is expected to weigh on the Canadian dollar, still trading near all-time lows versus the U.S. dollar. In the U.S., market contacts still expect another 25 basis points of easing by the FOMC on December 11th, and attribute the recent rise in implied yields (that suggest a moderation in expectations for monetary easing) to the recent sell-off in the U.S. Treasury market. (KByrne, 2-2054)

Europe: European bourses closed unchanged to lower, retracing earlier gains as the DJIA and S&P-500 traded into negative territory. Euro-area government bonds extended their earlier gains, in sympathy with price action in Treasuries and weakness in stocks, steepening continential yield curves. However, the U.K. gilt curve flattened on expectations that Chancellor Brown will cut the government's growth forecast and raise estimated borrowings in his pre-budget speech tomorrow. (JCetina 2-2017)

Latin America: Dollar/real broke through a key level at 2.50, furthering gains in the real. An IMF team has arrived in Argentina. EconMin Cavallo said over the weekend he would like to use \$3 billion in IMF money previously approved to enhance the debt swap for other purposes. Despite this bearish news, bond prices are higher, still dominated by technical factors — short covering and tightness in the repo market. (JCetina 2-2017)

Commodities: Dated Brent's price slipped further, and Brent and Nymex crude futures fell sharply during the New York morning as dealers returned from the holiday weekend and reacted to Russia's offer on Friday to cut production by a mere 50,000 bpd. Oil prices remain above recent lows however, after last week's spike in reaction to initial perceptions of agreement among non-OPEC producers to cut production, but our contacts predict new lows absent Russia's cooperation. (KByrne, 2-2054)

Today's Events: Consensus Expectation No U.S. data releases today

Time Actual Pr

Previous Period



From:

Sharer, James

Sent:

Friday, November 23, 2001 1:26 PM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Afternoon Report 11/23/01

- -- U.S. equities rallied in an abbreviated session.
- -- Treasury prices were weaker as investors favored equities.
- -- Dollar strengthened against the yen and European currencies.

U.S. Markets

U.S. equity markets closed higher in light holiday trading, aided by gains in finance, auto and retail stocks. Oil issues recovered despite Russia's decision to cut oil production by only a marginal amount. Enron closed down 6.6% to 4.68 on concerns about the firm's financial condition and the Dynergy takeover. The NYSE closed early at 1 PM today. The best stock performers were financial, software, communication equipment, bank and oil issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to 1/2 point in very light trading, reflecting some profit-taking and strength in the U.S. equity market. The Treasury cash market will close early at 2 PM for the Thanksgiving holiday. In WI trading the Treasury 2-year notes were bid at 3.22%. The December Federal funds futures contract rose 1 basis point to 1.93%. The January and February contracts were each up 1 bp to 1.92% and 1.91%. (JSharer 2-2042)

Commodities: The NYMEX was closed for the holiday. In very thin trading Brent crude prices dropped significantly on news that Russia will cut production by only 50,000 bpd during Q4, dispelling widely-reported views that a significant agreement among major non-OPEC producers was at hand. Russia's offer falls significantly short of Norway's 100,000-200,000 bpd proposed contribution, along with Russia and Mexico, to meet OPEC's 500,000 bpd prerequisite cut. (KByrne, 2-2054)

Global Markets

Foreign Exchange: In a quiet New York session, dollar/yen traded convincingly above the Y124 level for the first time since late July. Market participants especially focused on Financial Times articles in recent days suggesting the possibility of the BOJ purchasing U.S. Treasuries to help weaken the yen and increase domestic liquidity. Our contacts predict a significant weakening of the yen were Japan to embark on such a strategy. (KByrne, 2-2054)

Europe: German bund yields retraced some of the early morning declines to end the session down 2 to 3 bps. News of weak German inflation data was partially offset by a recovery in the German equity market. The DAX closed up 0.5% today. U.K. gilt yields were down 1 to 3 bps, supported by a 1.0% decline in the FTSE today. (JSharer 2-2042)

Turkey's National 100 index was down 1.2% to 11,719, while the lira was 0.4% firmer. The Turkish EMBI+ sub-index narrowed 16 bps to 760 bps. (JSharer 2-2042)

Argentina: The EMBI+ sub-index is 65 bps narrower at 2961 bps as two more Argentine provinces agreed to accept cuts in federal funding, even though participants' concerns about timely disbursement of the \$1.3 million IMF tranche remain. Notwithstanding savings on debt servicing that will accrue from the current debt swap operation (concluding November 30), many contacts maintain that, despite government denials, the "zero deficit" pledge cannot be met without canceling payment of year-end public sector bonuses. (KByrne, 2-2054)



From: Sent:

MSN Money Update [MSNMoneyUpdate_031408@ms-moneycentral.customer-email.com]

Tuesday, November 20, 2001 6:08 PM

To: Subject: ken.dam@do.treas.gov Thankful investors take profit

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Leading Indexes(as of 11/20/2001 16:00 hours ET) http://moneycentral.msn.com/investor/market/leading.asp

Quotes supplied by Standard & Poor's Comstock and delayed at least 20 minutes. Data Source: http://www.spcomstock.com

Name	LEVEL	CHANGE	%Change
Dow Jones Industrial Average	9,901.38	-75.08	-0.75%
S & P 500 Index	1,142.66	-8.40	-0.73%
Nasdaq Composite Index	1,880.51	-53.91	-2.79%
Amex Composite Index	811.03	+8.26	+1.03%
Russell 2000 Index	453.90	-3.81	-0.83%

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Market Summary (as of 11/20/2001 16:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Thankful investors take profit Provided by MSN Money

They say the wild turkey is a clever bird -- elusive and unpredictable. So, during this Thanksgiving trading week, is the market.

After locking onto a Dow 10,000 target, investors have pulled back. The market officially entered bull territory (a 20% gain from recent lows is the measure) Monday, only to recoil from the magic 10,000 level Tuesday. All three major indices -- the Dow, Nasdaq and S&P --

saw substantial drops.

On the surface, analysts pointed to profit-taking to explain the day&s pullback. But deeper fears lurk. The post-Sept. 21 rally -- amounting to a 20% market gain -- has been propped up by expectations of a 2002 recovery, perhaps even a sharp one.

Yet, evidence of such a turnaround remains hard to come by. Retail sales reports leading into the crucial holiday season don&t exactly suggest a blockbuster season. Tech companies continue to offer murky views of 2002 sales. And cost-cutting, rather than revenue growth, continues to account for most of any earnings gains posted by U.S. corporations.

All of the day&s 10 most actively traded stocks ended in the red, led by Enron. The energy investment firm&s admission that it may be forced to pay down some big debts quickly sent its shares tumbling 22%.

Other actively traded losers: Intel, down 4%, and networking stalwart Cisco, off 5%. ItEs hard to feel too horribly sorry for them, though, as each of their sectors has seen remarkable gains (the semiconductor index is up over 42%, for instance) in the past two months.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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This email was sent to: ken.dam@do.treas.gov

From: Cetina, Jill

Sent: Wednesday, November 21, 2001 12:22 PM

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne

Subject: Market Noon Report - Volumes thin as Thanksgiving looms

Better-than-expected U.S. data weighs on Treasuries and Euro-area debt.

Trading volumes light ahead of Thanksgiving; expected to be thin for rest of week.

U.S. Markets

communication equipment, electrical equipment and entertainment issues. The NYSE wil be closed tomorrow. On Friday, U.S. equities were lower in active trading, pressured by concerns over future corporate profits and analyst downgrades of Microsoft (-2.4% to 63.81) and Enron (-33.5% to 4.65). The worst stock performers were software, computer, the NYSE will close early at 1 PM for the extended Thanksgiving holiday. (JSharer 2-2042)

Treasuries. Most dealers continue to report market positioning and concern over year-end book closings as driving continued poor price action. Speculative and leveraged accounts as well as holders of MBSs continue to be active sellers and dealers note thin liquidity conditions exaccerbating price movements. Treasury prices are down 1/4 to 1/2 of a point. The curve Treasuries shrugged off reports of a new anthrax case in CT, focusing instead on today's data, which weighed anew on continues to flatten. (JCetina 2-2017)

Global Markets

accounts and position squaring responsible for the bulk of price action. Broad-based curo weakness continues to be a market focal point with today's move pushing the euro to a four-month low against the USD and some dealers talking about the Fx: Dealers report volume as light over the week given the upcoming holidays in the U.S. and Japan with speculative possibility for substantial further weakness in the euro. Though firmer today, dollar/yen remains within recent ranges. (JCetina 2-2017)

Commodities: Our contacts cited holiday short covering and EIA's report of a crude stock draw as factors supporting oil prices in a thin market today, but also see their customers selling into rallies. Ahead they see further testing of the recent \$17/barrel low as prices remain vulnerable to short-selling pressures below the key \$20/barrel technical level and to the unlikely prospects of significant production cuts by Russia. (KByrne 2-2054) Europe: German bund yields were up 1 to 11 bps in sympathetic response to a selloff in the Treasuries. Earlier, bund yields

construction orders. Similarly, U.K. gilt yields were up 6 to 9 bps. Earlier, BOE meeting minutes of the November meeting revealed an 8-to-1 vote for a 50 bps easing. Market participants will focus on German 3Q GDP (seen at -0.2% q/q), U.K. 3Q GDP (seen at +0.5% q/q) and French October CPI (seen at +1.8% m/m). European stock markets closed mixed today, with had fallen on news of declines in the October German IFO survey, October French consumer consumption and September the DAX and CAC 40 indexes falling 0.8%. (JSharer 2-2042)

period for local banks to participate in the swap to Nov. 30th. Contacts have noted communication of the terms of the swap to defending the 2.50 level. No change in the SELIC rate is expected from the COPOM tonight. Dealers note short covering supporting Argentine debt today as accounts locked in profits after a sell-off earlier this week. Fin Sec Marx extended the LatAm: The Brazilian real is firmer today but little changed on the week, continuing to bounce off the 2.50 level. Some dealers look for the real to firm further after the Nov futures expiry next week, with some short reais accounts reportedly the market has been poor. Oct. Argentine industrial production fell 7.9% y/y. (JCetina 2-2017)

Foday's Events:	Actual		Previous Period Consensus
J.S. initial jobless claims, week of Nov 17	427K		454K
Univ. of Michigan consumer sentiment, Nov.	83.9	83.5	83.5
BMA recommends early close to trading at 2 p.m. EST	. EST		
Freasury statement, Oct	2 p.m.	-\$11.3 billion	-S11 billion
Brazilan COPOM announcement on rates today after market closes no change in SELIC rate expected	fter mark	et closes no chai	nge in SELIC rate expected.

From:

Sharer, James

Sent:

Tuesday, November 20, 2001 5:06 PM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 11/20/01

- -- U.S. equities moved lower on poor earnings.
- -- Treasury prices were weaker on profit-taking and strong economic data.
- -- The dollar weakened against the major currencies in light dealings, retracing yesterday's gains.

U.S. Markets

U.S. equity markets closed with moderate losses in moderate trading, pressured by poor earnings data (Deere) and weakness in the technology sector. The Nasdaq index was off 2.8%. Enron plunged 22.6% to 7.01 after indicating that it may run out of cash before its takeover by Dynergy Inc. can be completed. Dynergy fell 4.4% to 41.70. The worst stock performers were semiconductor, communication equipment, entertainment, computer, telephone and software issues.

Treasury coupon prices were down 1/8 to a full point in moderate trading, mainly reflecting some profit-taking, rising oil prices and a 0.3% gain in the October leading indicators report. Treasury auctioned today \$23.0 billion 4-week T-bills to be issued November 23 and to raise \$15.0 billion new cash. The results were as follows:

Awarded rate: 2.000% Coverage ratio: 2.24 times

The Treasury cash market will close early at 2 PM tomorrow for the Thanksgiving Day holiday.

The December Federal funds futures contract was unchanged at 1.92%. The January and February contracts were both unchanged at 1.90% and 1.88%, respectively.

The January crude oil contract rose \$0.72 to \$19.15 a barrel on news that non-OPEC countries may agree to trim oil production by 500,000 bpd. The December natural gas contract rose \$0.06 to \$2.85 per million btu.

The dollar depreciated 0.5% against the euro and was 0.6% weaker against the yen. News that the PBOC was increasing its euro foreign exchange reserves supported the single currency. The dollar was 0.7% weaker against both the British pound and Swiss franc.

Latin American equity markets closed weaker, with the Merval plunging 6.1% on concerns over the Argentine debt swap and weakness in the U.S. stock market. News that both the Argentine economic policy minister and the secretary for state reform had resigned also weighed on financial markets. The country's international reserves fell 1.5% to \$19.438 billion as of Nov. 16, a level held prior to the \$4 billion IMF September disbursement. The Argentina EMBI+ sub-index spread climbed above the 3,000 level, widening 36 bps to 3069 bps. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 900 and 5200, respectively. Brazil's real weakened 1.3% and the Bovespa fell 2.7%, in part due to worries over Argentina. Chile's peso depreciated 0.9% on concerns that Argentina's financial woes may choke investment in the entire region.

The EMBI+ spread narrowed 13 bps to 1042 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also narrowed modestly, including Brazil (-3 to 925), Mexico (-15 to 342) and Turkey (-6 to 770).

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
JPN Industry Output, Sept.		-0.6% m/m	-0.2% m/m
FRN Consumer Spending, Oct.		+0.1% m/m	+0.1% m/m
GER IFO Business Climate Index, Oct.		85.0	85.0
US Initial Jobless Claims, wk ended Nov. 17		+6,000	-8,000 to 444,000
US Univ. of Mich. Consumer Sentiment, No	v. 10 AM	83.5	83.5 prelim.



From: Cetina, Jill

Sent: Tuesday, November 20, 2001 12:22 PM

DL_Market Group; Andrew Sacher, ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne

Subject: Market Noon Report, Nov 20th

Stocks in the red; Treasury curve steeper; dollar softens further; oil prices higher.

-- U.S. trade data triggers Wall Street to cut Q3 GDP growth estimates.

merchandise trade deficit was in larger-than-expected. This caused a number of banks to cut estimates of Q3 GDP growth to better-than-expected, led higher by gains in stocks, low interest rates, money supply and consumer expectations. (JCetina 2l to -1.5% versus the BEA's preliminary GDP estimate of -0.4% q/q (1st rev. due out next week). Leading indicators were U.S. Markets While the headline trade balance was better-than-expected due to Sept 11th insurance payments, the

Treasuries largely shrugged off the data with the unwinding of rate-lock hedges associated with Fannie Mae's 2- and 10-year support intermediate Treasury prices. Prices are, however, are unchanged to lower with the back-end underperforming as oil issuance having a bigger impact on the market. Price action remains choppy with hedge unwinding being offset by investors lightening up on Treasuries to make room for the new Fannie issues. A Fed coupon pass in 05' to 08' sector initially helped prices pare recent losses. (JCetina 2-2017)

Oil: Oil prices snapped their recent string of declines in reaction to comments from Norwegian Oil Minister Steensnaes who said he saw a possibility for non-OPEC producers to cut production by the 500,000 bpd OPEC has asked. (JCetina 2-2017).

lower on poor earnings data. The worst stock performers are semiconductor, entertainment, computer, retail and bank shares. U.S. equities are lower in moderate trading, pressured by profit-taking and weak earnings reports. Deere and Enron moved (JSharer 2-2042)

against the curo and the yen. Chinese central bank confirmation of euro buying to raise the euro component of its \$200 billion plus in reserves contributed to some moderation in the recent very curo bearish tone of the market. Traders report relatively Global Markets FX: While still range bound, the dollar remains softer, trading near the weaker end of its recent ranges typical holiday trading volumes with much of the activity geared toward position squaring. (LQuinn 2-9122)

OECD's growth forecast for Europe. German bund yields were up 1 to 2 bps on some profit-taking and on rebounding crude European bourses closed 0.6% to 1.9% lower, with the DAX underperforming. Traders blamed downward revisions in the

oil prices. U.K. gilt yields were down 4 to up 3 bps. Short-dated issues outperformed as a report showing falling home prices raised speculation the BOE could still lower rates near-term. (JSharer 2-2042)

Turkey placed 1.5 quadrillion lira in 7-month T-bills at 74.5% today, showing better appetite for Turkish assets. Demand at the auction was strong, 2.2 quadrillion lira. (JCetina 2-2017) Latam: Dealers report talk Spanish banks were large sellers of Argie bonds yesterday. Volume in Argie bonds remain active and prices are moderately lower today. Contacts note Argentina's ability to service its debt through the end of this year looks very shaky even as the IMF prepares to send a mission to review the program for disbursement of an additional \$1.2 billion. Argentina's ability to service its debt. Human capital flight continues as Economy Secretary Stuznegger resigned today and Some contacts note Cavallo's comments yesterday Argentina would miss the zero deficit target triggered concern about was replaced by Cavallo advisor Mondino. Brazilian bonds and the real are modestly weaker. (JCetina 2-2017)

Consensus Expectation -S25.6 billion 0.0%
Previous Period -\$27.1 billion -0.5%
Actual -\$18.7 billion 0.3%
Today's Events: U.S. trade balance, Sept. U.S. leading indicators, Oct.

From:

Robert.Elsasser@ny.frb.org

Sent:

Thursday, November 08, 2001 3:58 PM

To:

andrew.jewell@do.treas.gov; anna.corfield@do.treas.gov; brian.roseboro@do.treas.gov; gregory.berger@do.treas.gov; james.sharer@do.treas.gov; jeff.huther@do.treas.gov; jill.cetina@do.treas.gov; joe.engelhard@do.treas.gov; john.ralyea@do.treas.gov; john.taylor@do.treas.gov; kathleen.byrne@do.treas.gov; ken.dam@do.treas.gov; lois.quinn@do.treas.gov; mark.sobel@do.treas.gov; meg.donovan@do.treas.gov; paul.malvey@do.treas.gov; paul.o'neill@do.treas.gov; peter.fisher@do.treas.gov;

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tim.adams@do.treas.gov; tim.dulaney@do.treas.gov; troy.wray@do.treas.gov

Enron Update

Subject:



Enron requires little introduction. The following analysis written by Lorie Logan, Olivia Padilla and Mike Schetzel summarizes the blow to the debt and equity prices of Enron and other energy companies, and also examines the impact thus far on the energy trading markets.

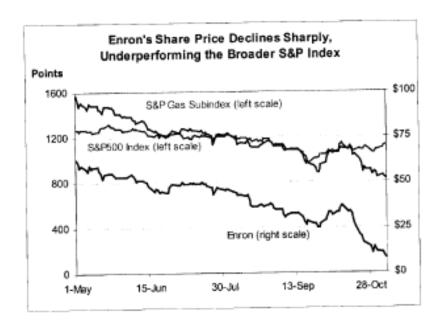
(See attached file: Enron.doc)

Bob Elsasser Government Securities, FRBNY robert.elsasser@ny.frb.org 212.720.1234

Enron Asset Prices Plummet and Expectations of a Default Rise Amid Significant Credibility Concerns

- Enron share and debt prices have declined sharply following revelations that its shareholder's equity dropped significantly and the SEC opened a formal investigation into transactions between Enron and the partnerships headed by its former CFO.
- Ratings downgrades of Enron's senior debt to two notches above junk status and rumors that the company is seeking a private equity infusion have further increased concern about the company's near-term liquidity position and a potential default.
- Spillover into the broader markets has reportedly been limited thus far to the share and debt prices of large energy merchants and power producers. To date, there has reportedly been little impact on trading conditions in the commodity markets or natural gas and electricity prices.

Enron's asset prices have declined significantly since mid-October, when Enron first disclosed a \$618 million thirdquarter loss and a \$1.2 billion reduction in shareholder's equity. Additionally, the announcement that the SEC would
be conducting a formal investigation of Enron's related-party transactions, as well as the subsequent downgrades to two
notches above junk status by Moody's and S&P further weighed on investor confidence. Market participants are
particularly concerned as a downgrade to below investment grade status from Moody's or S&P could reportedly reduce
counterparties' willingness to conduct business with Enron and could further lower Enron's ability to secure additional
funding. Enron's share price has declined over 65 percent since mid-October, and is currently trading below \$10 per
share for the first time in 9 years.



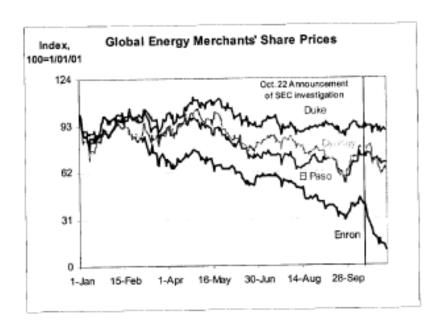
 The price on Enron's benchmark bond (6 3/4 of 2009) has traded significantly lower since mid-October, with the spread to comparable Treasuries breaching the 1,000 basis point level. Once this occurred, the bonds have begun trading more in line with high yield bonds and are trading on many distressed debt desks. Trading liquidity in the debt has progressively worsened, with bid-ask spreads quoted anywhere from 1 point for small trades to 3 to 5 points (100 to 200 basis points) for larger trades. For some perspective, a high quality, medium to large investment grade issue could trade with a bid-ask spread of 5 to 10 basis points.

Enron Bond Spread to Treasuries (from JP Morgan)			
	3-months ago	1-month ago	Today (11/07/01)
5-year	+130	+270	+1750
10-year	+160	+290	+1440
30-year	+190	+320	+705

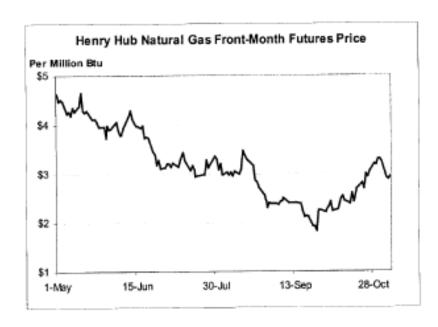
• In the credit default swap market, which is used by market participants as a hedge against a credit event in a specific issue, Enron spreads have widened significantly. The premium fee for Enron, which is based on an annual percentage of the par value of the security that is being insured, rose from 260 basis points at the beginning of September to between 2,000 and 3,000 basis points today. Anecdotally, market participants in the credit default swap market expect if a credit event involving Enron is to occur, it will happen in the next 3-months with some suggesting that a 35 percent probability of an Enron credit event is being priced in.

Spillover in the broader equity and bond markets appears to be limited thus far to large energy merchants and power and utility companies. Market participants explained that while share prices in the sector have been trending lower this year given the political news surrounding the California power crisis and significantly lower electricity and natural gas prices, concerns about Enron have weighed on the sector. Specifically, investors note uneasiness about the extent to which such firms may be impacted through derivative and other trading-related exposures.

 Shares of the large energy merchant companies such as El Paso, Duke, and Dynegy are down 5 to 20 percent since mid-October. Spreads on the benchmark bonds of such companies also widened anywhere from 10 to 70 basis points to Treasuries, but have reportedly since stabilized. Furthermore, many energy companies are continuing to issue debt, with over \$4 billion in the energy sector expected to price this week.



 Some contagion effect has also been reflected in the credit default swaps of other large energy merchants, with premium spreads widening by 40 to 80 basis points since September. For example, the spread on El Paso widened 40 basis points to 320 basis points, while the spread on Mirant rose 50 basis points to 400 basis points. In the energy commodity market, traders report that trading in the natural gas and electricity markets remain liquid, price volatility remains within normal ranges, and supply and demand fundamentals continue to dominate price action. The CFTC also announced that it has no indication of futures markets disruptions involving Enron Trading Services, Enron's registered futures commission merchant. A few dealers have suggested that the 6.8 percent rise to \$3.25 per million Btu in the front-month Henry Hub natural gas futures contract last week was partially a result of Enron unwinding some short positions. However, several others explained that the rise in futures prices was due to an increase in demand from utility investors in combination with seasonal factors and the American Gas Association inventory report, which showed a smaller-than-expected increase in inventory levels.



Market participants note uncertainty about the impact on the energy markets should Enron's position worsen, as it
is difficult to know the totality of Enron's derivative positions in the natural gas and electricity markets. Some
have suggested that existing market hedges between multiple firms in the markets could begin to unwind, which
could add to short-term instability in the energy market, particularly natural gas. However, they note that terms
would likely be quickly renegotiated and price stability would return to the trading markets.

Market participants reportedly continue to trade on Enron's trading platform, EnronOnline, though some accounts may be more cautious about long-term exposure. EnronOnline reportedly handles 20 to 25 percent of all volume in the natural gas and electricity markets. While daily trading volume data for EnronOnline is not regularly reported, Enron announced on Monday that trading volume for all products on the platform was about 6,500 transactions, above the 30-day average of 5,800 transactions. However, energy merchant companies that compete with Enron, including El Paso and Dynegy, have publicly noted an increase in business activity as investors concerns about Enron have increased over the week.

Today, Dynegy and Enron confirmed earlier speculation that they are engaged in discussions about a possible business combination, but did not release any terms of the potential transaction. On this news, Enron bond prices rose, largely retracing this week's losses as short-term accounts covered short positions. The 10-year bond is about 10 points higher than yesterday's lows at 75 cents on the dollar, while the equity price is little changed. After declining on the news yesterday, Dynegy shares rose 11 percent and the price of its 10-year benchmark has partially retraced, trading at about 300 basis points above Treasuries as investors reportedly believe the deal would be done be under favorable terms for Dynegy.

Other primary trading platforms include DynegyDirect, Intercontinental Exchange (ICE), New York Mercantile Exchange, and TradeSpark in addition to several smaller electronic trading systems.

From:

Sharer, James

Sent:

Thursday, November 08, 2001 12:55 PM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Noon Report 11/8/01

- U.S. and European equity markets rallied on optimism for economic recovery
- -- Treasury prices move lower in moderate trading
- -- Dollar firms against European currencies, weaker vs. yen

U.S. equity markets moved higher in moderate trading on optimism that recent aggressive central bank rate cuts will revive global economies. The Nasdaq outperformed. Enron was off 4.9% to 8.60 as the firm restated earning and fired top officials. The best stock performers were software, entertainment, semiconductor and financial issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to 7/8 point in moderate trading. The price declines mainly reflected profit-taking, an unexpected 46,000 drop in weekly jobless claims, rising crude oil prices and concern over upcoming corporate supply. Traders shrugged off news of a 0.4% decline in the October non-fuel import price index. Tomorrow's session will be abbreviated for the Veteran's Day holiday. (JSharer 2-2042)

Commodities: Crude oil prices firmed (with knock-on effects in product markets) on cautious short-covering after Saudi and Kuwaiti officials' backed deeper cuts in oil production and as market sentiment continued to improve on yesterday's data showing strong U.S. demand for oil products in October. (KByrne, 2-2054)

Foreign Exchange: The euro held steady until after a 10 a.m. options expiry, then quickly fell through support levels of 89.20 against the dollar and the 108 against the yen. Participants report further deterioration in confidence in the ECB and growing bearish euro sentiment in light of yesterday's ECB members' mixed and misleading comments. Euro trading against all major currencies is reported to be heavy. (LQuinn 2-9122)

Europe: German bund yields were up 1 to 7 bps, on profit-taking and strength in the equities markets. However, U.K. gilt yields were down 1 to 17 bps. European stock bourses closed stronger with the central bank rate cuts. The DAX outperformed. (JSharer 2-2042)

Turkey's National 100 index was up 0.9% to 10,457 and the lira firmed 0.8% on growing hope for new international lending. The Turkish EMBI+ sub-index spread narrowed 12 bps to 855 bps. (JSharer 2-2042)

Latin America: Argentine bond prices have fallen today as the recent short covering rally ahead of Argentina's local debt swap has waned. Participants remain focused on the outcome of federal negotiations with opposition governors whose position seems to have hardened as well as the outcome of President de la Rua's trip to the U.S. Brazilian debt prices are modestly higher and the real is modestly firmer. (JCetina 2-2017)

EMBI+ spreads: The Argentine sub-index rose 61 bps to 2330 bps, while the Brazilian and Mexican sub-indexes narrowed 12 bps to 1060 bps and 8 bps to 393 bps. (JSharer 2-2042)

Today's Events:

US Initial Jobless Claims, wk ended Nov. 3 -46,000 to 450,000 US Non-fuel Import Price Index, Oct.

Actual -0.4%

Consenus Expectation

+10,000 -0.2%

Previous Period -11,000 to 496,000

-0.1%



From: MSN Money Update [MSNMoneyUpdate 030625@ms-moneycentral.customer-email.com]

Sent: Wednesday, November 07, 2001 6:39 PM

To: ken.dam@do.treas.gov

Subject: Stocks mixed; Enron, Dynegy deal

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Quotes supplied by Standard & Poor's Comstock and delayed at least 20 minutes. Data Source: http://www.spcomstock.com

Name	LEVEL	CHANGE	<pre>%Change</pre>
Dow Jones Industrial Average	9,554.37	-36.75	-0.38%
S & P 500 Index	1,115.80	-3.06	-0.27%
Nasdaq Composite Index	1,837.53	+2.45	+0.13%
Amex Composite Index	821.98	+4.55	+0.56%
Russell 2000 Index	440.80	-1.98	-0.45%

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Market Summary (as of 11/7/2001 17:00 hours ET) http://moneycentral.msn.com/articles/common/summary.asp

Stocks mixed; Enron, Dynegy deal Provided by MSN Money

Neither rally nor slump would stick on a day in which the Dow index finally crested its pre-Sept. 11 level. Stocks ended mixed, perhaps because investors were unsure how to interpret the future effects of yesterday&s move by the Federal Reserve to cut interest rates an aggressive half point.

1

For part of the day, the Dow Jones Industrial Average finally flowed over 9,605 for the first time since Sept. 10. The Nasdaq Composite and the S&P indices hit their pre-terror marks weeks ago.

Despite the lack of market direction, there was plenty of corporate intrigue to keep market watchers busy. The battle over the mega-merger of Hewlett-Packard and Compaq continued, with a member of the Packard family joining the Hewletts in opposing the marriage. Stock-market result: H-P shares fell a tad after yesterday&s big run-up, and Compaq stock dropped another 6%.

Meanwhile back at the Texas-based Enron ranch, there was word of a possible deal with competitor Dynegy. CNBCEs David Faber reported this afternoon that a potential \$2 billion investment could lead to a merger of the rival camps. It's a high-noon development that could possibly save the disintegrating Enron, whose shares have dropped 75% in a month and ticked down yet again today.

"While such an outcome is only one of a number of options being discussed, sources close to the talks tell me it is a possibility in the near term," Faber reported. "Sources close to the situation tell me that while Enron continues to speak with a handful of private equity firms about an investment, those talks are currently taking back stage to talks with Dynegy."

This morning, badly beaten telecom stocks were rocked again, this time by word from Qualcomm that earnings missed targets and profits for the fiscal year would struggle to hit the low end of forecasts. By day&s end, Qualcomm shares had recovered some, losing less than half a percentage point.

Interest-rate sensitivity may have been the dayEs best indicator of market success. American Express and J.P. Morgan Chase gained nicely under the presumption that Fed actions would improve their money-making abilities.

Full day's coverage: http://moneycentral.msn.com/articles/common/summary.asp

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This email was sent to: ken.dam@do.treas.gov

From:

Byrne, Kathleen

Sent:

Tuesday, November 06, 2001 4:33 PM

To:

DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin Financial Markets Closing Report, Nov. 6, 2001 - Fed Cuts Rates, U.S. Equities & Treasuries

Subject: Fir

rally

-- The Federal Reserve cut the Federal Funds target rate and the discount rate by 50 basis points to 2.0% and 1.5%, respectively.

U.S. equity markets retraced to close moderately firmer and the Treasury coupon curve steepened.

FOMC Statement: In its accompanying statement, the Fed maintained the bias to ease, noting that for the foreseeable future, "the risks are weighted mainly toward conditions that may generate economic weakness." Market participants noted the lack of mention of specific reasons for rate cuts and the fact that the real Fed Funds rate is now negative for the first time since 1993 (using core CPI in the calculation).

U.S. Equities: Major U.S. markets abandonned the profit-taking mode that had weighed prior to the Fed's decision, and rallied in relief that a full 50 bps of easing had been announced. Intel and Cisco shares led the surge on the Nasdaq, which closed at a fresh two-month high and above the 1800 mark for the first time since August 31. Dealers noted the sharp decline in Enron's shares, however, on reports the company seeks to raise \$2 billion.

U.S. Treasuries: Prior to the announcement, the coupon curve was 4 bps flatter on the day; at market's close, the curve was 10 basis points steeper as Treasuries rallied across all tenors save the long bond. The 3-month bill outperformed, as those participants who had put on short positions in anticipation of curve flattening (on a smaller cut) bought aggressively at the front end after the announcement.

Foreign Exchange: Dealers noted muted reaction to the FOMC's decision, as well as low levels of liquidity and volatility in the market. The dollar firmed temporarily in the aftermath of the Fed's decision before retracing, to close modestly weaker against most major currencies. Dealers predict renewed weakness in the euro vis-a-vis the dollar, however, absent decisive action by the ECB to ease monetary policy near-term.

Interest Rate Futures: The implied yield on the December Fed funds futures contract declining dramatically in the wake of the FOMC's decision, and is fully pricing in 25 bps of easing at the Committee's December 11th meeting as well as a very small chance of easing beyond that amount. Participants noted that the Fed's decision to ease by 50 bps today (rather than the 25 bps many had expected) may well put additional pressure on the ECB to ease. Implied yields on euribor futures contracts fell modestly today in reaction to ECB President Duisenberg's dovish commentary.

Commodities: Ahead of the API inventory report, oil prices were unchanged to modestly lower on perceptions of OPEC's inability garner cooperation for a production cut among non-OPEC producers. Today's EIA report showed a cut in its estimate of U.S. oil demand by 10,000 bpd for the Q4 2001, but an increase in its estimate for Q1 2002 of 30,000 bps.

Argentina: After downgrading Argentina's sovereign ratings from CC to C earlier today, Fitch also cut the country's World Bank guaranteed series E and F zero coupon notes from BB- to B+, citing the government's upcoming "distressed" local debt exchange. Moody's observed today that "the swap as described certainly has the characteristics that would represent default" but did not take immediate action to downgrade the country's rating. Our contacts explained the rises in prices of Argentine debt today as reflective of very light volumes and moves by some participants to cover short positions on dips.

Tomorrow's Events:	Time	Actual	Consensus Expectation	Previous
Period Bank of England's MPC begins fir EUR Business Climate Indicator, EUR Retail Sales Volumes, Aug. GER Manufacturing Orders, Sept US Non-farm Business Productivi US Wholesales Inventories, Sept.	Oct. ty, 3Q 8:30 AN	4	-0.80 +0.1% m/m -1.5% m/m +2.0% q/q -0.3% m/m	-0.57 +0.3% m/m +1.4% m/m +2.1% q/q -0.1% m/m

From: Sharer, James

Sent: Tuesday, November 06, 2001 12:54 PM

To: __DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject: Financial Markets Noon Report 11/6/01

- U.S. equities were narrowly mixed ahead of the outcome of today's FOMC meeting (2:15 PM)

- Treasury prices were also mixed, long bonds outperforming on scarcity value

- Dollar mixed in thin trading, marking time for Fed's decision

U.S. Markets

U.S. equity markets were narrowly mixed in active trading ahead of the FOMC meeting outcome. Enron Corp. was off 11.5% to 9.89 following news that the firm is seeking to raise \$2 billion. The worst stock performers were oil, telephone, drug, software and oil-well equipment issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to up 1/4 point in light trading. Prices of short-term issues edged lower on new Treasury supply, while gains in bond prices reflected scarcity value. Treasury auctioned today \$16.0 billion 4-week T-bills to raise \$10.0 billion. The results: Awarded rate: 2.140% Coverage ratio: 1.42 times.

Treasury will auction at 1 PM \$16 billion 5-year notes, which together with tomorrow's auction of \$7.0 billion 9 3/4-year notes will raise \$1.412 billion new cash. Traders expect the awarded rate will be close to 3.64%. This compares with the 4.67% yield awarded in the last Treasury 5-year note auction in August. The WI 9 3/4-year notes were bid at 4.30%. (JSharer 2-2042)

Interest Rate Futures: Participants continue to debate the likelihood of a full 50 basis point cut in the Federal Funds rate. At 2.195%, the implied yield on the November Fed Funds futures contract is pricing in a 53% chance of 50 basis points of easing, down from almost 70% last night. Traders noted that positioning by participants in the Treasury market and by a number of primary dealers in the Eurodollar market reflecting more widespread anticipation of a smaller rate cut. (KByrne, 2-2054)

Commodities: Just a day after OPEC Secretary General Rodriguez predicted production cuts as deep as 1.5 million barrels/day, other OPEC members warned of an impending "price war" absent an agreement with non-OPEC producers to reduce supply. Nymex crude futures prices slipped to fresh two-year lows and the Brent front month contract fell below the \$19/barrel mark for the first time since July 1999. Participants await U.S. API stock data, predicting a build in crude oil inventories for the third straight week. (KByrne, 2-2054)

Global Markets

The major currencies traded in a very narrow range this morning. No strong directional movement is expected by market observers until the BOE and the ECB's rate decisions are announced on Thursday. (LQuinn, 2-9122)

Europe: German bund yields were down 2 to up 3 bps. U.K. gilt yields were unchanged to up 2 bps on some profittaking. European stock bourses closed narrowly mixed.

Turkey's National 100 index was up 1.6% to 10,456 and the lira firmed 1.0%, aided by continued optimism over IMF talks and a successful debt sale today. The Turkish EMBI+ sub-index narrowed 20 bps to 877 bps. (JSharer 2-2042)

Latin America: Fitch cut Argentina's sovereign long-term foreign and local currency credit ratings to C from CC today and said the debt swap points to a default. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 850 and 4150, respectively. The JP Morgan EMBI+ spread narrowed 11 bps to 1079 bps over the comparable Treasury securities. The Argentine sub-index narrowed 54 bps to 2381 bps, while the Brazilian and Mexican sub-indexes fell 14 bps to 1120 bps and 5 bps to 394 bps, respectively. (JSharer 2-2042)



From: Cetina, Jill

Sent: Thursday, November 01, 2001 12:45 PM

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne

Subject: Market Noon Report -- Nov 1 -- Fixed income still the focus

- NAPM weak; Treasury curve flattens further; equities higher; dollar retraces

-- Argentine asset prices move lower still while Brazil continues to decouple

U.S. Markets

Freasuries: Prices are mixed as the curve continues to flatten with the 30-year bond gaining over 2 1/4 points while the price painful move for these accounts and triggered an unwinding of these positions, further bolstering the bond. Some corporate curve steepening trades on ahead of yesterday's announcement, many of them leveraged. Thus, the bond's rally has been a note. Today several Treasury market contacts and corporate bond dealers noted they thought the Dept. is understating the bond desks were reportedly also short the bond as a hedge. Gains in stocks and reallocation trades weighed on the 2-year positioning is likely to contribute to further gains in the bond. Several dealers noted most accounts were positioned with of the 2-year note is down modestly in active trading. The 10-year has benefitted as well with the yield falling 13 bps to 4.11%, a level not seen since the early 60s. Weaker-than-expected NAPM data bolstered the bond while dealers noted value to U.S. fixed income markets of having a risk-free 30-year benchmark. (JCetina 2-2017)

U.S. equities are higher in moderate volume, aided by strength in tech issues. Microsoft rose 4.0% to \$60.50 following news of a tentative settlement with the Justice Dept. Enron fell 9.7% to 12.55 on news of a formal SEC investigation of the firm. (JSharer 2-2042)

Global Markets

Fx: The dollar extended its losses following the release of NAPM, weakening to Y121.30 and \$0.9120, but has since largely accounts as well as a parring back by speculative accounts of short dollar positions against the euro as factors in the dollar's post-NAPM retracement. Some dealers noted position squaring ahead of tomorrow's employment report. (JCetina 2-2017) retraced though the dollar remains weaker on the day. Dealers noted interest to sell euro/yen by European real money

component is not updating properly, noting they believe the spread could be even wider than the reported 150 bps widening to 2313 bps. Overnight peso rates rose further, reaching 125% as talk of deposit withdrawals continues to circulate. In Oct, M3 Latin America: Comments by the IMF and a breakdown in talks between the federal government and governors pushed prices of Argentine bonds lower. The 08' is down 2 1/4 points. Some dealers report JP Morgan's Argie EMBI+ sub-

disbursement as is not party to debt restructuring talks. BA Governor Ruckauf reportedly stated he would take President de la province reportedly nearly missed a Eurobond payment yesterday. Oct tax revenue data tonight are expected to be poor. Rua to court to sue for past-due coparticipation payments and threatened to seize federal assets in the province after the reportedly declined by 2.98 billion pesos. Mid-morning the IMF stated it is not considering accelerating the Dec Despite weakness in Argie bonds, Brazil's C bond is holding up well, down only 1/3 of a point. (JCetina 2-2017)

dropped 1 to 18 bps, bolstered by news of a halt in U.S. long bond auctions and in response to a drop in the Oct U.S. NAPM Europe: European bourses closed 0.6% to 0.9% higher on advances in drug and technology issues. German bund yields index. In similar fashion, U.K. gilt yields were down 2 to 10 bps. (JSharer 2-2042)

overproduction remains in the range of 800,000 bpd (down from 1.3 million). Consequently, they remain unimpressed with Commodities: Our contacts acknowledge better compliance with production limits within OPEC in recent weeks, but note shown yesterday in DOE figures relative to API's, and unsuccessful efforts to elicit cooperation from non-OPEC producers. contracts are trading a few cents higher, but dealers remain skeptical given weak demand, a very large build in U.S. stocks OPEC's Rodriguez's statements predicting a cut of 1 million bpd starting Jan 1. Front-month Brent and Nymex futures (KByrne, 2-2054)

Consensus Expectation -4,000 to 500,000 0.1% 44.0 36.3
Previous Period +8,000 to 504,000 revised to 0.1% from unchanged 47.0 34.5
Actual 499,000 unchanged 39.8 32.5
oday's Events: .S. initial claims, week ending 10/27 .S. personal income, Sept .S. NAPM, Oct .S. NAPM Prices Paid, Oct.

From: Cetina, Jill

Sent: Thursday, November 01, 2001 12:45 PM

_DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne ë

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From: Cetina, Jill

Sent: Wednesday, October 31, 2001 1:02 PM

_DL_Market Group; Andrew Sacher, ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager, Paul Reid; PMalmgren; Wayne ë

Subject: Oct 31 Noon Report -- A morning of surprises.. better-than-expected data but the curve flattens

A morning of surprises -- preliminary Q3 GDP and Chicago PMI better-than-expected; Treasury eliminates the long bond; buybacks as needed going forward

would continue for this year future buybacks would be announced quarterly. The decision caught participants off-guard. The Freasury announced it would eliminate issuance of 30-year nominal and inflation adjusted bonds and that while buybacks Treasuries: Today's advance Q3 GDP data came in somewhat better-than-expected, contracting 0.4% q/q. At 10 a.m. bond rallied with the yield falling 29 bps to 4.92% in heavy trading. TIPS also rallied.

monthly 5-year auctions which was not announced today. Some dealers questioned whether the Administration was trying to tightness of the bond in the repo market yesterday, buying of cash and futures ahead of the official release as well as an early participants noted today's data coupled with lower rates at the back-end increased the likelihood the FOMC would cut by 25 Treasuries underperformed, as accounts reallocated and bought bonds and on strength in U.S. equities. Ancedotally, some posting of the news on Treasury's website. A few dealers noted rumors had also circulated that Treasury would resume flatten the Treasury curve to pass on lower rates to corporates and homeowners to stimulate the economy. Short-dated However, dealer contacts complained news of the bond's elimination had been leaked -- citing early morning rumors, bps next Tuesday, not 50 bps. The 2-10 year and 2-30-year curves are 11 and 23 bps flatter relative to this morning. Canadian long bonds benefitted, with the yield falling 16 bp (JCetina 2-2017) U.S. equities were mostly higher in active trading, in reaction to today's data. News Treasury was halting sales of long bonds also boosted stocks. Enron rose 14.2% to \$12.75 on talk of a takeover by GE Capital, Berkshire Hathaway or Royal Dutch Petroleum. (JSharer 2-2042)

Global Markets

and is currently about 0.5% firmer against most major currencies. This morning's move has pushed the euro and yen to near Fx: The dollar gained following the data, and was also bolstered by strength in equities and Treasury's news about the bond technically significant levels at \$0.90 and Y122.50, if these levels are broken, further dollar buying could be triggered Europe: European bourses closed flat to 2.1% higher, with the CAC-40 outperforming as a number of firms announced cost-

U.K. gilt yields fell 1 to 6 bps on slumping consumer confidence and expectations for another BOE rate cut. (JSharer 2-2042) cutting moves and U.S. equities gained. German bund yields were up 2 to down 9 bps, with 30-year bunds outperforming.

Argentina has moved its reserves to the BIS (interpretted as a move to protect Argentine assets from creditors in the event of a Latin America: Dealers noted this morning continued interest by a large Spanish bank to buy Argentine bonds earlier this morning, triggering further buying by others to cover short positions. However, later in the morning contacts noted rumors default) which has weighed somewhat on Argentine debt. The Argentine 08' bond is currently down 2 points. (JCetina 2-2017)

Consensus Expectation -1.0 q/q 1.6%	44.0
Previous Period 0.3% q/q 2.1%	46.6
Actual -0.4% q/q 2.1% 10 a.m.	46.2
Today's Events: US Q3 GDP, advance US Q3 GDP deflator Treasury Quarterly Refunding	Chicago PMI

In addition to the PDF version of the report, please find text from today's Quarterly Refunding.

From: Cetina, Jill

Sent: Monday, October 29, 2001 12:27 PM

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne ö

Subject: Financial Market Noon Report, Oct 29th

- Participants continue to positions for weak U.S. data.

Argentine debt weakens further.

Enron downgraded by Moody's.

U.S. Markets

was off 2%, led by declines in GE, Citigroup and Boeing (which lost the JSF contract on Friday). Echostar Communications GDP and the Oct employment report. Worries over a possible Argentina default put pressure on financial stocks. The Dow in overseas bourses. Investors were nervous over this week's slate of economic data -- consumer confidence, NAPM, 3Q Equities: U.S. equity indices are lower in active trading, mainly reflecting profit-taking and large declines agreed to purchase GM's Hughes Electronics unit for \$26 billion. (JSharer 2-2042)

Argentina, weakness in stocks and expectations of weak data. The 10-year Treasury is reportedly sitting near a key technical Treasuries: The 2-year note has extended its gains in NY trading, steepening the Treasury curve further, on concerns about resistance level. The Fed conducted a \$478 M coupon pass in the '21 to '29 sector, lending support to the back of the curve. Contacts described volume today as light. Yields on near-dated Fed fund futures have declined 2 to 3 bps ahead of expectations for weak U.S. data. (JCetina 2-2017) U.S. fixed income: Moody's cut Enron's long-term credit rating from Baa1 to Baa2, noting the firm's significant write-downs rating. Enron constitutes about 25% of online energy trading in the U.S. Several contacts called in to highlight the possible due to private partnerships, and suggested it may lower the rating further as well as cut Enron's current P2 commercial paper significance of Enron's credit woes for the U.S. economy. AT&T may place \$5 to 7 B in bonds in the next 2 weeks to refinance maturing commercial paper. (JCetina 2-2017)

Global Markets

data. However, dealers reported flows were not one-way as U.S. corporates sought to hedge euro exposure. (JCetina 2-2017) levels were broken. Dealers report both real money and model-based accounts buying euro on expectations of weakness U.S. Fx: The USD extended its losses against European currencies in the NY morning as stocks traded lower and key technical

Europe: European bourses closed 2.1% to 3.0% weaker in thin volume, pressured by profit-taking and declines in tech and

from the ECB and BOE. German bund yields fell 3 to 6 bps, while U.K. gilt yields are down 2 to 8 bps, given the weaker telecom issues. Investors are apprehensive over upcoming U.S. data, although weak data may encourage further rate cuts equity markets. (JSharer 2-2042) Latin America: Over the weekend, Economy Minister Cavallo stated he is seeking to "improve the probability of repayment be the appointment of Merrill Lynch's Frenkel to lead a debt restructuring. Participants also noted the arrival of an IMF team, announcements from the Argentine government, Oct. tax receipts, due out towards the end of this week, are rumored to drop so as to reduce overall debt financing costs and lower interest rates for the economy." However, the main topic continues to Argentine bonds continue to trade lower with the Argentine EMBI+ spread rising 120 bps to 1958 bps, a fresh high, and by 8% y/y. Argentina's EMBI+ spread widened about 200 bps in the days following the release Sept. tax receipt data. which supposedly is in town to review Argentina's program for possible early release of the \$1.2 billion Dec tranche. prices on the 08' and FRB are down 6 and 7 1/2 points, near lifetime lows. While most participants are focused on (JCetina 2-2017)

From: Murden, Bill

Sent: Friday, May 25, 2001 6:10 PM

To: Adams, Tim; Dam, Ken; Engelhard, Joe; Fall, James; Kupfer, Jeffrey; Lee, Nancy; Loevinger,

David; Nelson, Heidi; O'Neill, Paul; Radelet, Steve; Sobel, Mark; Taylor, John

Cc: Barber, Francine; DeMarco, Edward; Dohner, Robert; Donovan, Meg; Green, Matthew; Harris, Rosemary; Jonathan Fiechter (E-mail); Jorstad, Van; jpiercy@worldbank.org; Julia

Kuhn (E-mail); Michele Budington (E-mail); Molly Mahar (E-mail); Muckleroy, Terry; Muench, Marilyn; Paulson, Sara; Quinn, Lois; Salladin, Anne; Tania Luhde (E-mail); Toloui, Ramin; Walsh, Helen; jabbott@imf.org; tcrawford@worldbank.org; Teresa.Curran@sf.frb.org; gerard.dages@ny.frb.org; sally.m.davies@frb.gov; Ken Egan; Mathiasen, Karen; Austin, Carlos; Baukol, Andrew; Gelpern, Anna; Haarsager, Mathew; Anderson, Lisa; Boone, Sherman; Drezner, Daniel; Durham, Paulette; Giancola, Mark; Gorlick, Warren; Gunaratne, Nilmini; Jaakson, Juhan; Krulak, Keith; Monroe, Wilbur; Sanford, Paul; McDonald, Larry; Stedman, Louellen; Wisner, Peter; Harlow, Robert; Johnston, Richard; Byrne, Kathleen; Cetina, Jill; Dulaney, Tim; Crane, Deborah; Dupuy, Max; Jewell, Andrew; Lung, Richard; McCoy, Christopher; Morris, Liza; Neil, Jeff; Wingle, John; Backes, Steven; Dohlman, Peter;

Epstein, Natan; Kosmides, Ivy; Ralyea, John; Grewe, Maureen; Haight, Cameron; Mills, Marshall; Barber, Ed; Gottlieb, Geoffrey; Hoffman, Barak; Shah, Sonal; Beasley, Mary;

Warthin, Whit; MLundsager@imf.org; Setser, Brad; csciacca@fdic.gov; jose.tuya@occ.treas.gov; vvillalba@fdic.gov; KaWalter@fdic.gov;

lucylgnacio@mail.asiandevbank.org; kbruno@fdic.gov; Jconneely@fdic.gov; ccrail@fdic.gov;

rmarshall@fdic.gov

Subject: Emerging Markets Banking Weekly - 5/25/01

Attached please find the electronic version of the *Emerging Markets Banking Weekly*, prepared by OASIA's Office of International Banking and Securities Markets to highlight significant banking and financial regulatory developments in key emerging markets during the most recent week.



Executive Summary (repeated in the attachment)

In **Asia**, six **Indian** banks may incur losses if a nearly-completed large power plant project is halted; **Indonesia**'s bank restructuring agency declares that its revenue targets for 2001 are too high; and the **Philippine** government plans to acquire a majority interest in the country's sixth largest bank.

In Latin America, Argentina's central bank once again adjusts bank reserve requirements in an attempt to promote increased lending.

In Emerging Europe and Africa, the Czech bank restructuring agency announces it will cease bulk asset sales for the remainder of the year, the Russian government announces plans to legislate a deposit insurance program; and Turkey's banking regulator reports that clean up costs to date have reached nearly \$40 billion.

Highlights (repeated in the attachment)

Asia (pages 2-3)

Head of one of China's largest state-run banks critical of asset management companies.

India's largest lenders worried about Enron's threat to pull out of large power project.

India's central bank urges greater coordination among country's financial regulators.

Indonesia's Bank Restructuring Agency backs away from revenue targets.

Fitch rating agency gives Bank International Indonesia "negative outlook."

Indonesia's banks impacted by negative spreads on fixed rate government bonds.

Hong Kong based bank considering purchase of Korea's tenth largest bank again.

Philippine government to increase investment in country's sixth largest bank.

Thailand's nonperforming loans edge higher.

Latin America (page 3)

Argentina's central bank effectively lowers reserve requirements by including vault cash in calculation.

State-owned Argentine bank buys 40 percent of new T-bill issue.

Emerging Europe and Africa (pages 3-4)

Czech bank restructuring agency to delay more bad asset sales.

Duma banking committee head announces Russia will pass deposit insurance bill in autumn.

Russia's largest state-run bank increases deposits and lending, maintains profitability.

Turkey's banking regulator reports nearly \$40 billion cleanup cost to date.

Turkey's fourth largest private bank considering investment by several foreign banks.

Note: Exec Sec will receive the original and hard copies separately. Please direct any comments or additional requests for hard copies to Paul Sanford-sanfordp.

Valentic, Marsha

From:

Nancy Lazar [nlazar@isigrp.com] Friday, January 11, 2002 10:25 AM

Sent: To:

ISI Reader

Subject:

ISI Morning Political Report with Audio

Importance:



-My competer overit open this fall.

In today's POLITICAL REPORT:

Enron Political Fallout

* No Fiscal Stimulus Bill, But...

Waiting For The Chairman

EU May Threaten Trade Sanctions

Please let us know if you have any questions.

All the best,

Nancy Lazar 212/446-5633

ISI INTERNATIONAL STRATEGY & INVESTMENT MORNING POLITICAL REPORT

Tom Gallagher 202/872-5260 tgallagher@isigrp.com Andy Laperriere 202/872-5261

alaperriere@isigrp.com

Fax: 202/530-5804

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FRI JAN

11

A CANCER ON THE PRESIDENCY?

1 of 3

Hardly. We're reminded of a comment made years ago by an observer of political scandals, who turned John Dean's famous phrase about Watergate around and said that Whitewater was more like asthma than cancer for Clinton, often debilitating but rarely fatal. Enron will be more like a headache for Bush, but it is a huge political story, and here is some of the fallout:

- Barring evidence of Bush involvement, Enron will fall well short of Whitewater in terms of
 political damage to the President. So far it's an embarrassment but not a scandal.
- Rather than the scandal angle, the more productive line for this inquiry for Democrats
 will be the campaign finance/influence buying angle. Politically this will expose the
 Bush/GOP vulnerability of being too close to corporate interests. Legislatively, this emphasis
 will delay energy legislation and could give a boost to campaign finance reform, which has
 passed the Senate, and the discharge petition in the House is only three votes short of
 forcing a floor vote.
- The Jeffords party switch last year will make this a bigger political story, since Republicans
 would have been less inclined to pursue congressional hearings aggressively. It will be
 interesting to compare the number of Senate Enron hearings to the number of House
 hearings.
- Score another victory for Treasury Secretary O'Neill's campaign to limit moral hazard risks caused by government rescues. He's now let both Argentina and Enron go without assistance. Larry Lindsey made the point over the weekend that in few countries would the seventh largest company (and, we would add, one with strong political connections) be allowed to fail, but so far that has had as much to do with the unfolding story as the fact that the Clintons lost money on their Whitewater investments.

Lay suggested [to O'Neill] the case of Long-Term Capital Management LP could be a model.... "Secretary O'Neill then contacted Undersecretary [Peter R.] Fisher, Undersecretary Fisher looked at that and concluded there would be no more impact on the overall economy." Fisher had been involved in the Long-Term Capital bailout as a Federal Reserve official. Washington Post

NO FISCAL STIMULUS BILL, BUT...

We don't expect a fiscal stimulus bill to pass Congress this year, but that doesn't mean there won't be a stimulative fiscal policy or that there will be no tax cuts or spending increases. We expect spending to be higher in some areas and a number of targeted tax cuts are possible. But we don't think that most of the elements of the widely debated stimulus bill will be enacted this year. Below we outline which proposals we think are unlikely, possible and unlikely.

Likely (Above 60% Chance)

- Extension of unemployment benefits. Congress normally extends unemployment benefits during recessions, especially during election years. This will probably take several months to get enacted as it will first get mired in a broader tax cut/stimulus debate, though. It should amount to \$10 to \$15 billion over the next two years.
- Higher spending on homeland security and national defense. President Bush will request \$20 billion more for the Pentagon (including \$7 billion more for procurement) as well as more funds for homeland security. Congress will probably exceed his request.
- Minor tax cuts such as extending expired tax provisions. While it won't amount to
 much from a fiscal stimulus standpoint (a few billion dollars in 2002 at most), some of the
 targeted tax credits to matter to specific companies and sectors. It could be many
 months before these expired provisions are extended, however.

Possible (40% to 60% Chance)

- Targeted energy tax cuts. An energy bill is a real possibility, and such a bill would almost certainly include a package of tax cuts designed to encourage energy production and conservation. A House-passed bill added up to only \$35 billion over ten years.
- Higher domestic discretionary spending. Higher domestic spending (education, health research, etc.) is a near certainty, but the increase may not be large enough to qualify as fiscally stimulative.

Unlikely (Below 40% Chance)

- Republican tax cut wish list. Republicans supported speeding up the Bush tax cut, "bonus" depreciation, and repeal of the corporate AMT. Some Republicans and Democrats also favored including a sales tax holiday or payroll tax holiday as part of a stimulus bill last year. None of these proposals — most of which would amount to tens of billions of dollars — are likely to pass this year.
- Democratic spending wish list. Democratic fiscal stimulus priorities are also unlikely to become law, such as "rebate" payments to low-income workers who don't pay income taxes, a big boost for infrastructure spending or new federal payments for health care insurance for the unemployed. These proposals amounted to more than \$10 billion each.

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WAITING FOR THE CHAIRMAN

Chairman Greenspan will speak on the economy (according to Bloomberg, at 1:55 pm Eastern time). We'll gauge the impact of his comments on market expectations for the January meeting and the extent of Fed tightening for 2002.

We've been writing about the magnitude of tightening the eurodollar market is assuming for this year and wondering who is taking the other side of that bet. We've heard from a few of those investors recently, and a key part of the argument is that the post-September 11 rate cuts were crisis-driven, not fundamentally driven, and that crisis-based rate cuts have a shorter shelf life. For some time the amount of Fed tightening for 2002 was about the size of the post-September 11 rate cuts (175 bp). We have some sympathy for that point of view, but the more we thought about it, the more those rate cuts look more fundamentally based. The real funds rate is just above zero, about where it has been in most past recessions.

If the futures market is right, our first thought is that stocks are in for a shock. But Jason Trennert developed this table, which as a first cut suggests that Fed tightening in a recovery is not a disaster for stocks. Jason does note the high valuations for stocks now, and while stocks could handle some Fed tightening, the 140 bp now priced in may be much more than equity investors now expect.

Date of First	Change in S&P 500		
Tightening	% Change + 3 Mo.	% Change + 6 Mo.	% Change + 12 Mo.
1 December 1954	8.4%	11.7%	33.4%
2 August 1958	8.1%	16.7%	27.4%
3 August 1961	2.0%	2.8%	-14.7%
4 April 1971	-0.6%	-1.5%	6.8%
5 July 1975	-12.6%	-4.9%	9.2%
6 August 1980	5.2%	6.9%	8.0%
7 June 1983	1.0%	2.4%	-5.7%
8 February 1994	<u>-6.0%</u>	<u>-3.9%</u>	<u>-1.9%</u>
Average	0.7%	3.8%	7.8%

Bush has to decide on steel import limits in March. Should he take aggressive action against European steel producers, the EU has a huge weapon to wield against the US. The WTO has already approved \$4 billion in trade sanctions due to a US export tax subsidy, which the EU has not yet acted on.

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1/11

Valentic, Marsha

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In today's POLITICAL REPORT:

- Interpreting The FOMC Speakers
- Fuel-Cell Makers Get Big Boost
- Enron Investigation Update

Please let us know if you have any questions.

All the best,

Nancy Lazar 212/446-5633

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INTERPRETING THE FOMC SPEAKERS – MAYBE A JANUARY CUT, BUT DEFINITELY NOT THAT MUCH TIGHTENING IN 2002

This week Guynn, Santomero, McDonough, Broaddus, McTeer, Ferguson, and Poole have all been on the tape with economic comments. Greenspan speaks both today (on economic literacy) and tomorrow (on the economy).

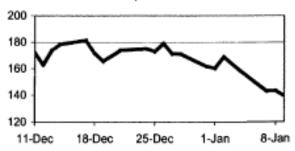
The message from the various FOMC speakers this week have had roughly consistent themes – they aren't confident of the timing or strength of the recovery, but they are confident of a recovery. In normal times such comments would be taken as a sign of a probable interest rate cut at the next meeting, and they could be taken so now. But they are also consistent with the Fed leaving rates unchanged but keeping the easing bias in place. Consequently, the odds of a quarter-point cut have gone up from 20% last Friday to about 25% yesterday.

The clearer implication of the FOMC speakers is that they don't expect to raise rates as much as the futures market expects. The expected tightening in 2002 has fallen from 160 bp last Friday to 140 bp yesterday. In short, the Fed doesn't see growth creating inflationary pressures, so the markets shouldn't expect much tightening. We think even the 140 bp is still substantially higher than the Fed is likely to do this year.



1 of 2

...But expected '02 rate hikes are dropping Dec 02 minus Jan 02 LIBOR futures, adjusted for risk premium



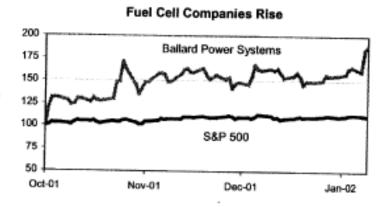
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The Bush Administration is jettisoning a program once pushed by Al Gore to build a car that could get 80 miles per gallon in favor of more funding for fuel cell technology. As the accompanying graph shows, the news has helped Ballard Power the past few days, the leading fuel cell company.

The Administration is also hoping the announcement will help reduce support in Congress for raising corporate average fuel economy (CAFE) standards on sport utility vehicles. Higher fuel standards would hurt the automakers by raising the cost of their most profitable vehicles. We think that if an energy bill does pass Congress this year — which is highly uncertain — an increase in CAFE standards is

likely to be included in it.

Energy legislation could be on the Senate floor sometime in February. The House has already passed two different energy bills, one that would raise CAFE standards and provide tax incentives and subsides for increased energy production and conservation. The other bill would open ANWR to oil drilling.



ENRON INVESTIGATIONS TO HAVE BIGGER POLITICAL THAN POLICY IMPACT

The Justice Department announced that it has launched an investigation of Enron, joining just about every other outfit in Washington. We have no idea where a criminal probe will lead, but the congressional investigations are more about politics than policy. While five congressional committees are investigating the company — and these hearings will get plenty of media attention — so far there is little evidence that major legislation (such as more regulation of energy markets) will result from this process. Democrats intend to use the Enron debacle to try to embarrass the Bush Administration. For example, earlier this week Democrats demanded to know details of any Administration meetings with Enron officials. With that said, these hearings will help pressure regulators to tighten disclosure rules. In addition, there could be legislation limiting how much employer stock can be held in employee retirement plans.

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In today's POLITICAL REPORT:

The Fed And Productivity Growth

Presidential Cycle Says Next Year Should Be Good For Stocks

Enron Update

India-Pakistan Step Back, For Now

Please let us know if you have any questions.

All the best,

Nancy Lazar 212/446-5633

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THE FED AND PRODUCTIVITY GROWTH

1 of 4

Did Greenspan Push His Optimism

About the New Economy Too Far? WSJ

But as capital spending continued to collapse this

grow over the next two years was slipping to about 3% from its estimate of more than 4% in early

winter and spring, the Fed research department's

models showed that the economy's potential to

2000. (The economists made clear this didn't

necessarily affect the longer-run outlook.)

- · The Wall Street Journal has an important front-page story on a shift in the view at the Fed (other than Greenspan) on productivity growth.
- The Fed's view on productivity is important for two reasons. First, it has important implications for monetary policy. Second, the Fed plays an important role in setting private sector expectations for productivity growth. That's why an optimistic comment on productivity growth has become part of the template for nearly every Fed statement.
- For monetary policy, lower productivity growth would mean the Fed would tighten at a lower growth rate (that is, price pressures could emerge at a lower growth rate).
- But lower productivity growth would also lower the neutral fed funds rate, implying less tightening in the next tightening cycle. During the 1999-2000 tightening cycle, Greenspan cited rising productivity as a key reason for raising short rates.
- If the market lowered its assessment of expected productivity growth it could lead to lower P/E ratios, lower real interest rates (the bulk of the run-up in long-term rates since early November has been a rise in

real rates, not in expected inflation), and a weaker dollar. Lower long-term productivity

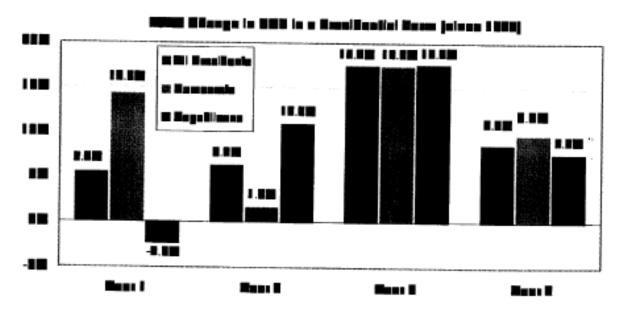
growth would also reduce future Federal budget revenues.

The article no doubt is a sign of a growing debate within the Fed. But we shouldn't overstate the importance of the debate. If there were conflicting views among the Chairman, other Board members, and the staff, you'd still bet on the Chairman's views prevailing.

PRESIDENTIAL CYCLE SAYS NEXT YEAR SHOULD BE GOOD FOR STOCKS

We're not big believers in the presidential cycle, but it doesn't do a bad job in giving a broad view of the market's direction. The notion is that presidents try to get the bad news out of the way early in their term in order to have a smoothly running economy as they run for re-election. Presidents do have that motivation, but others (Congress, the Fed) may not share it, plus there are so many other factors driving share prices.

- The S&P return is much better in the second half of a presidential term than in the first half.
- Down years for the market tend to come early in a president's term. Of the 16 years in which the S&P fell, 13 were in the first half of a term.
- Including Bush's, there have been 15 terms covered by the data in the graph, and 12 of the
 terms had negative years in the first half. For Democrats, the second year has typically been
 the bad one, but for Republicans it's the first 6 out of 8 GOP terms started with a fall in the
 first year. With a decline in the S&P in 2001, Bush is holding to the pattern so far. The
 average for the second year of a GOP term is 11%, so the presidential cycle would suggest
 a good 2002 for the S&P.



Data for 2001 through 12/27/01.

12/28/01

ENRON UPDATE

While most of Congress' attention (and our own) was focused on the stimulus and terrorism insurance bills earlier this month, the House Financial Services and the Senate Commerce committees held hearings on the collapse of Enron. While it is too early to tell if any new laws will be passed as a result of the Enron fiasco, below we highlight the issues on which members of Congress have so far focused.

Congress will return to the Enron issue in early February, when Ken Lay is expected to testify. You can be sure Democrats will be pointing out that Lay was a major fundraiser for President Bush and congressional Republicans.

- Wall Street Research. The House Financial Services Committee had already been
 holding hearings on this issue, but it was a major focus of key Republican and
 Democratic members of the committee. The Chairman of the Committee, Mike Oxley
 (R-OH), observed in his opening statement that when Enron's stock dropped below a \$1,
 half of Wall Street analysts still had a "buy" rating on the company.
- Employee Retirement Plans. Enron employees, many of whom had a significant
 amount of their 401(k) retirement plans in Enron stock, were prohibited from selling it
 during several critical weeks. In addition to this limitation on selling, there is
 congressional interest in prohibiting employee retirement plans from being concentrated
 in the stock of their employer. Senators John Corzine (D-NJ) and Barbara Boxer (D-CA)
 have introduced legislation requiring that employee retirement plans be diversified.
- Regulation of Energy Trading. Senator Byron Dorgan (D-ND) suggested at the Commerce Committee hearing that more regulation of energy trading may be required, although we think this has little chance of passing Congress. Oxley pointedly stated in his opening remarks at the House hearing that he wouldn't let Enron's collapse be used "as a vehicle to make big-government arguments against electricity markets."
- Restrictions on Special-Purpose Entities. Special-purpose entities (SPEs) are the
 partnerships and other off-balance sheet financing entities created by Enron and other
 companies. Senator Hollings, the Chairman of the Senate Commerce Committee,
 suggested that Congress should consider prohibiting SPEs. We think that is a very
 unlikely outcome. More likely would be accounting rule changes (by FASB, not
 Congress) that would require more disclosure of the details of these financing tools.

12/28/01

INDIA-PAKISTAN STEP BACK, FOR NOW

By sticking to diplomatic retaliation, the two countries at least for now have refrained from more serious trade or military escalation. That gives international efforts to head off a military clash a great chance of success. A conflict prior to a possible meeting between the two countries' leaders late next week seems unlikely.

Indian Foreign Min: Can't Gauge Closeness To Pakistan War AP

With their armies ready for war, India and Pakistan battled diplomatically Thursday, expelling embassy staff and banning planes from each other's airspace.

US Admin Suggests India, Pakistan Talk At S Asia Summit AP



KAL, Kevin Kallaugher, The Economist

12/28/01

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Terrorism Insurance Bill Still a Close Call

* Stimulus Package Update

Political Trivia - Age and Politics

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TRADE VOTE TRENDING TOWARD PASSAGE

The Stakes

- Economic policy A successful TPA vote would continue the favorable momentum for freer trade that the Qatar WTO meeting started last month. A setback for TPA could send the signal to US trading partners that serious negotiating in the WTO is not called for, since Bush can't count on congressional support. Trade talks would be stalled but not killed.
- Politics The Bush Administration is going all-out to win the vote, so it's a test of Bush's legislative clout.
- 3. Financial markets In recent years setbacks to fast-track negotiating authority have not been market-moving events, so we doubt a setback (defeat or delayed vote) this week would be a negative. But because it has both policy and political significance, we can't rule out the possibility that this time a setback could have a negative market impact.

The Outcome

- A vote is scheduled for today, but could be put off until tomorrow or, less likely, until after the stimulus bill is sent to President Bush. House Republicans, Administration officials and business lobbyists told us yesterday they think they have finally rounded up enough votes for passage.
- Business lobbyists believe that about 25 Democrats will vote for TPA, a number that was
 boosted yesterday by a Republican commitment to include a \$30 billion package for the
 unemployed as part of the stimulus bill. If 25 Democrats vote for TPA, House Republican
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 have. But Robert Matsui (D-CA), the top Democrat on the trade subcommittee, predicted
 that only 8 Democrats will vote for TPA, a number that would ensure its defeat. The
 outcome hinges on a handful of mostly western Democrats, many of whom
 represent high-tech areas and have tried to develop pro-business bona fides.
- If TPA passes the House this week, the Senate will take up the measure next year, where it should pass with a reasonably comfortable margin.

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Calif Democrat Asks Cheney To Disclose Enron Mtg Details Bloomberg

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The AFL-CIO recently filed a shareholder proposal at Goldman Sachs, to be voted on by all of the shareholders on the company's next proxy. It asks Goldman Sachs to ban analyst ownership of covered securities, involvement of analysts in underwriting sales teams, and linking analyst compensation to the financial performance of Goldman's investment banking business. Slate

Sell-side research hasn't received the brunt of criticism over Enron, but it faces a hard road back to credibility in the aftermath of the tech boom/bust.

ADMINISTRATION OPPOSES SENATE FARM BILL

In a strongly worded letter, the Bush Administration announced it opposes the Democratic farm bill being considered on the Senate floor. The strong stand by the Administration — along with other factors — make passage of a farm bill this year unlikely.

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POLITICAL TRIVIA - AGE AND POLITICS

Thurmond celebrates 99th birthday Bloomberg

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Valentic, Marsha

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Enron Likely to Engage Washington on Many Fronts

Pivotal House Trade Vote Set for Thursday

Central Bank Watch

This Week in Congress

* Senate Confirms Fed Governors

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All the best,

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TERRORISM INSURANCE BILLS INTRODUCED IN SENATE; CHANCE OF PASSAGE LESS THAN 50/50

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Hollings (S. 1743)	Creates a national fund paid for by assessments on industry. Also creates a temporary fund for next three years similar to other bills. Government pays 90% of losses in first year, 80% in years 2 and 3.	Once losses equal 10% of premiums for an individual company.	No, but industry pays a premium equal to 3% of gross premiums.	None.
McCain (S. 1744)	Would pay 80% of damages that exceed individual companies' reserves.	NA.	Yes.	Caps punitive damages.
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Central Bank – Key Rate	Next 2 Meetings	Outlook
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CENTRAL BANK CALENDAR

Mon (3 rd)	Greenspan speaks on "The Challenges of Globalization" in Washington.
	Fed — Moskow speaks in Chicago.
	ECB — Padoa-Schioppa speaks in Rome.
	ECB Liebscher speaks in Vienna.
	ECB — Welteke speaks in Frankfurt.
	BOJ releases minutes from the Oct 29 monetary policy meeting.
Tue (4 th)	BOE meets.
Wed (5 th)	Fed — Meyer speaks in Swarthmore, Pennsylvania.
	ECB Council member Welteke speaks in Frankfurt.
	ECB — Domingo Solans speaks in Frankfurt.
	BOE announces interest rate decision.
Thu (6 th)	Fed McDonough speaks in New York.
	ECB meets.
	ECB President Duisenberg briefs the press after interest rate decision.
Fri (7 th)	ECB and the Bundesbank hold a press conference about EU accession in Berlin.

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SECTOR WATCH			
Sector	Issue	Analysis	
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Farm Equipment, Fertilizer	Farm bill	The Senate could take up the farm bill as early as this week.	
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Congress Misses Its Chance to Jolt the Economy

LA Times

This LA Times article reflects a shift against the stimulus bill among the elite. If a bill doesn't pass this month, it is very unlikely to happen next year.

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SENATE CONFIRMS FED GOVERNORS

Last Tuesday the Senate confirmed Bush's two nominees to the Board of Governors of the Federal Reserve. Once they are sworn in, the roster of the Board will be as shown. The next decisions for Bush on the Fed will be filling the vacancies caused by Kelley's expected retirement and the expiration of Meyer's term.

FEDERAL RESERVE BOARD OF GOVERNORS

Member	Term expires Jan 31,
Alan Greenspan (Chairman) ¹	2006
Roger W. Ferguson, Jr. (Vice Chairman)2	2014
Laurence H. Meyer	2002
Edward W. Kelley, Jr.3	2004
Edward M. Gramlich	2008
Susan Bies⁴	2012
Mark Olson⁵	2010

¹ Term as chairman ends Jun 20, 2004.

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² Term as Vice Chairman expires Oct 5, 2003.

³ Has announced he will retire when a new Board member has been confirmed.

Confirmed by Senate on Nov 27, 2001.

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Valentic, Marsha

From: Sent:

Nancy Lazar [nlazar@isigrp.com] Monday, December 03, 2001 10:40 AM

To:

ISI Reader

Subject:

ISI Morning Political Report with Audio

Importance:

High



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In today's POLITICAL REPORT:

Terrorism Insurance Bills Introduced in Senate

- Enron Likely to Engage Washington on Many Fronts
- Pivotal House Trade Vote Set for Thursday
- Central Bank Watch
- * This Week in Congress
- * Senate Confirms Fed Governors

Please let us know if you have any questions.

All the best,

Nancy Lazar 212/446-5633

ISI INTERNATIONAL STRATEGY & INVESTMENT MORNING POLITICAL REPORT

Tom Gallagher 202/872-5260

Andy Laperriere 202/872-5261

tgallagher@isigrp.com

alaperriere@isigrp.com

Fax: 202/530-5804

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FEDERAL RESERVE BOARD OF GOVERNORS

Member	Term expires Jan 31,
Alan Greenspan (Chairman) ¹	2006
Roger W. Ferguson, Jr. (Vice Chairman) ²	2014
Laurence H. Meyer	2002
Edward W. Kelley, Jr.3	2004
Edward M. Gramlich	2008
Susan Bies ⁴	2012
Mark Olson⁵	2010

¹ Term as chairman ends Jun 20, 2004.

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Joint Report on Retail Swaps

As Required by Section 105(c) of the Commodity Futures Modernization Act of 2000

Board of Governors of the Federal Reserve System

Department of the Treasury Commodity Futures Trading Commission Securities and Exchange Commission









December 2001

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December 2001

Board of Governors of the Federal Reserve System Department of the Treasury Commodity Futures Trading Commission Securities and Exchange Commission

December 26, 2001

The Honorable J. Dennis Hastert Speaker of the House United States House of Representatives Washington, D.C. 20515

Dear Mr. Speaker:

We are pleased to transmit our report on retail swaps as required by the Commodity Futures Modernization Act of 2000 ("CFMA").

The CFMA directed the Board of Governors of the Federal Reserve System, the Secretary of the Treasury, the Commodity Futures Trading Commission, and the Securities and Exchange Commission (the "agencies") to study issues regarding the offering of swap agreements to retail customers, principally small businesses and individuals.

Specifically, the study was to address the potential uses of swap agreements by retail customers; whether financial institutions are willing to offer such swap agreements; the appropriate regulatory structure, if any, to address customer protection issues with respect to the offering of such swap agreements; and other matters the agencies deemed necessary or appropriate to address. The agencies interviewed several potential market participants whose views are described in the report.

The CFMA also directed the agencies to submit a report to Congress on the findings and conclusions of the study, along with any recommendations for legislative action.

As indicated in the report, the agencies do not recommend legislative action at this time for swap agreements offered to retail customers.

Staff of the Federal Deposit Insurance Corporation, the Federal Reserve Bank of New York, and the Office of the Comptroller of the Currency worked with the agencies during the study and participated in the preparation of the enclosed report.

page 2

We appreciate the opportunity to convey this report to you.

Sincerely,

Alan Greenspan Chairman

Board of Governors of the Federal Reserve

Paul H. O'Neill Secretary

Department of the Treasury

James E. Newsome

Chairman

Commodity Futures Trading Commission

Harvey L. Pitt Chairman

Securities and Exchange Commission

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December 26, 2001

The Honorable Richard B. Cheney President of the Senate United States Senate Washington, D.C. 20510

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JOINT REPORT ON RETAIL SWAPS

As Required by Section 105(c) of the Commodity Futures Modernization Act of 2000

I. INTRODUCTION

The Commodity Futures Modernization Act of 2000 ("CFMA") requires the Board of Governors of the Federal Reserve System ("Board"), the Secretary of the Treasury ("Treasury"), the Commodity Futures Trading Commission ("CFTC"), and the Securities and Exchange Commission ("SEC") to conduct a study of issues involving the offering of swap agreements to persons other than eligible contract participants. This Report responds to the CFMA's requirement that the agencies submit to Congress by December 21, 2001, the findings and conclusions of the study and their recommendations on whether any legislative action is necessary and appropriate.

A primary purpose of the CFMA was to create a clear legal foundation and regulatory framework for many types of over-the-counter ("OTC") derivatives transactions entered on a principal-to-principal basis between "eligible contract participants" ("ECPs") as defined in Section 1a(12) of the Commodity Exchange Act ("CEA"). Parties that do not qualify as ECPs include individuals who do not have total assets in excess of \$10 million (or \$5 million if they enter swap agreements for risk management) and non-financial entities that do not have total assets in excess of \$10 million (or net worth in excess of \$1 million if they enter swap agreements in the ordinary conduct of business or for risk management). For purposes of this study, non-ECPs are "retail customers," and swaps offered to them are "retail swaps."

Since its enactment, the CFMA has excluded OTC swap agreements and other specified derivatives transactions between domestic and foreign financial institutions, broker/dealers, insurance companies, commodities firms, and other ECPs from most of the CEA. The CFMA's limitation of this exclusion to ECPs was consistent with the recommendation of the President's Working Group on Financial Markets that OTC swap agreements between institutional counterparties generally should not be subject to the CEA.³

The CFMA did not address the legal or regulatory status of swap agreements with retail customers, with the exception of clarifications to a provision of the CEA known as the Treasury

Commodity Futures Modernization Act of 2000, Pub. L. No. 106-554 – Appendix E, §105(c), 114 Stat. 2763A-365 (2000).

^{2 7} U.S.C. §1a(12).

³ President's Working Group on Financial Markets, Report on Over-the-Counter Derivatives Markets and the Commodity Exchange Act (November 1999).

Amendment, which excluded certain transactions in foreign currency, government securities, and other specified financial instruments from the CEA. Specifically, the CFMA explicitly excluded OTC foreign currency futures and options transactions offered to retail customers by certain federally and state-regulated entities from most provisions of the CEA.

This Report does not cover retail swap agreements in foreign currency because Congress has addressed these transactions in the CFMA's revisions to the Treasury Amendment. However, in the CFMA, Congress did not address CEA issues involving retail swap agreements on underlying assets or instruments not covered in the clarifications to the Treasury Amendment.⁶ Instead, Section 105(c) of the CFMA posed the following topics for the agencies to investigate in the study:

- The potential uses of swap agreements by persons other than eligible contract participants.
- The extent to which financial institutions are willing to offer swap agreements to persons other than eligible contract participants.
- The appropriate regulatory structure to address customer protection issues that may arise in connection with the offer of swap agreements to persons other than eligible contract participants.
- 4. Such other relevant matters deemed necessary or appropriate to address.

⁴ 7 U.S.C. §2(c). Prior to the CFMA, there was disagreement concerning the scope of a provision of the CEA known as the "Treasury Amendment," which provided an exclusion from the CEA for foreign currency transactions. The CFMA provided clarity to this issue. With respect to government security transactions, futures on government securities which trade on an organized exchange are subject to the jurisdiction of the CFTC. 7 U.S.C. §2(c)(2)(A). Other transactions in government securities, regardless of the nature of the counterparties, are excluded from most provisions of the CEA. 7 U.S.C. §2(c)(1).

OTC futures and options transactions in foreign currency offered to or entered into with retail customers are excluded from most provisions of the CEA if the counterparty is a regulated bank, a registered broker-dealer or futures commission merchant ("FCM") or affiliate thereof, or one of a number of other federally or state-regulated entities. 7 U.S.C. §2(c)(2)(B). However, such transactions remain subject to certain provisions of the CEA, including antifraud, if entered into by an FCM or affiliate of an FCM that is not also one of the other enumerated entities. 7 U.S.C. §2(c)(2)(C).

OTC foreign currency futures and options transactions offered to or entered into with retail customers by all other entities are subject to the CEA and the CFTC's jurisdiction, as provided in the amended CEA, as are foreign currency futures and options transactions executed or traded on an organized exchange (other than foreign currency options executed or traded on a national securities exchange, which are subject to SEC jurisdiction).

Analysis of whether any particular types of retail swaps are subject to the CEA or any other federal laws falls outside the scope of the study required by Congress and this Report.

To investigate these topics, the agencies interviewed representatives of derivatives dealers (including commercial and investment banks and a non-financial firm), a derivatives trading system, and a trade association on August 1 and 2, 2001, in New York. Institutions were selected based on the nature and scope of their derivatives activities and their interest in expressing views on the questions posed. Appendices 1 and 2 of this Report contain a list of interviewed institutions and a copy of interview questions.

Part II of this Report consists of a summary of what the agencies learned from these interviews. Part III sets forth the agencies' conclusions and recommendations. Appendix 3 has been prepared by Treasury Department staff in order to address tax issues associated with retail swap agreements. Staff of the Federal Deposit Insurance Corporation, the Federal Reserve Bank of New York, and the Office of the Comptroller of the Currency worked with the agencies during the study and participated in the preparation of this Report.

II. SUMMARY OF INTERVIEWS

In general, the interviewees stated that they are satisfied with Congress's clarification of the applicability of the CEA to derivatives activity in the CFMA. Therefore, most interviewees are not currently advocating legislative action or a regulatory framework with respect to retail swaps, since they have no current interest in entering into this business. They indicated that there does not appear to be either any demand for retail swaps at present or any financial incentive for firms to offer retail swaps, in light of the array of alternative products currently available.

Two of the interviewees expressed an interest in retail swaps. One firm expressed an interest in providing energy derivatives as a hedging vehicle for small businesses and individuals that do not meet the requirements to be ECPs and indicated a belief that there is demand for such a product. Another firm indicated a philosophical belief that current law is too restrictive and that swaps should be available to non-ECPs.

A. Potential Uses of Retail Swaps

Among the potential uses for swap agreements by non-ECPs that the interviewees identified in the course of the study are the following.

Equities

The interviewees generally observed that equity derivatives may be used for two purposes: to hedge an existing position in an individual equity security or to create synthetic exposure to one or more individual securities or security indices.

Hedging. OTC equity derivatives are frequently used to hedge exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security that it does not wish to liquidate, perhaps due to tax consequences, or when the counterparty is unable to liquidate a position in a security due to transfer restrictions under federal securities laws. Although such counterparties typically meet the statutory criteria for ECPs, one interviewee suggested that the growing number of "dot-com" millionaires in the late 1990s could potentially have generated interest in the development of equity derivatives products for holders of restricted securities that own net assets of between \$1 million and \$5 million.

Several of the interviewees noted, however, that firms generally do not recommend the use of swap agreements to hedge positions in individual equity securities because of tax considerations.⁷

Under the Internal Revenue Code, they said, entering into a swap agreement to hedge an appreciated financial position, such as equity that has risen in value since being acquired, may be deemed a constructive sale. If substantially all the economic risk of the underlying financial position is eliminated, the holder is required to recognize any gains for tax purposes. Consequently, the commercial and investment banks interviewed indicated that they typically advise persons seeking to hedge partially or reduce exposure to an equity position to enter into OTC options contracts, based on their view that the use of such contracts may not always trigger a taxable event. They also indicated that this strategy does not raise CEA issues, since options on securities are considered "securities" under the federal securities laws and are not subject to the CEA.

Synthetic Exposure. The interviewees also noted that OTC equity derivatives could be used to gain exposure to a security in lieu of purchasing or selling the security directly. It might be advantageous to use an equity derivative for this purpose, in their view, if greater leverage could be obtained (as compared to a traditional margin account), or if the cost of executing, clearing or settling trades in the underlying security or securities were comparatively expensive, as in the case of the component stocks of a security index or securities in certain non-U.S. markets.

Several interviewees questioned, however, whether retail investors would be able to use retail swaps for these purposes. Some interviewees expressed the view that swap dealers were unlikely to permit retail investors to obtain significantly greater leverage using a swap agreement than by purchasing or selling the underlying security or a standardized derivative instrument in a traditional margin account, largely because of credit concerns. For example, some of the commercial and investment banks interviewed indicated that they typically require their customers to collateralize the derivative contract with the securities they are seeking to hedge.

Some interviewees opined that, in light of the relative cost of negotiating and entering into swap agreements, individually-tailored swap agreements might not be cost effective for all but the highest net

The discussion of tax issues in this section of the Report reflects the comments of interviewees, and no inference should be drawn concerning whether the Treasury Department agrees or disagrees with the opinions or analyses of tax issues expressed by the interviewees. A discussion written by Treasury Department staff of tax issues of relevance to retail swaps can be found in Appendix 3.

⁸ See discussion in Part II.B below.

worth individuals and institutional investors as a means of establishing a synthetic exposure. The commercial and investment banks interviewed also generally noted that retail investors currently have access to a wide variety of securities and derivatives products to gain exposure to equity securities, including equity-linked notes, warrants, exchange-traded funds, mutual funds, exchange-traded options and, likely in 2002, exchange-traded security futures.

Interest Rate Products

Several interviewees noted that there was very little demand for interest-rate swap agreements at present except among institutions and high net worth individuals that already qualify as ECPs. For example, one firm remarked that, to the best of its representatives' recollections, it had never entered into fixed income swaps with an entity that owned or had under management less than \$100 million in assets.

Some interviewees said that non-ECPs could potentially use interest-rate swap agreements to obtain the benefit of more favorable interest rates on household or small business expenses, such as mortgage or consumer debt, separately from the underlying loan. These interviewees added, however, that at the present time, it is convenient for non-ECPs to refinance a mortgage or transfer consumer debt, and the ability to enter into an "unbundled" swap agreement would not appear to offer retail customers a cost-effective or convenient alternative.

Energy

Several interviewees stated that non-ECPs may have an interest in swap agreements on energy products, such as electricity, natural gas, and heating oil, as a tool to assist small businesses and households in controlling energy costs. One firm further indicated an interest in offering such contracts as a third party – i.e., to provide risk management transactions for such commodities without also supplying the underlying commodity.

This firm noted that, as a result of the deregulation of the energy markets in certain states, households and businesses have entered into forward contracts for full or partial energy requirements with competing energy providers at fixed or capped prices. It was further noted that, in localities where physical delivery of energy products may be restricted because of regulatory or operational constraints, cash-settled swap agreements have in some cases been available for ECPs in order to provide them a means to hedge their exposure to price fluctuations. Accordingly, small businesses and, to some extent, households that are not ECPs may similarly desire to enter into swap agreements in order to control their energy costs when forward delivery contracts are not available; in this firm's view, current uncertainty about the status of such contracts under the CEA has hindered their development.

Some interviewees, however, opined that the current tax treatment of gains and losses on swap agreements entered into by individuals (and outside the context of conducting a trade or business) to hedge energy costs may make such agreements less attractive. They indicated that while gains on energy swap agreements would be fully taxable, losses on these swaps either would not be deductible or would qualify as a miscellaneous deduction, which are only deductible to the extent total miscellaneous deductions exceed two percent of adjusted gross income.9

In summary, all but two of the interviewees reported that there does not appear to be significant demand for retail swaps at present, with one firm specifically stating that there was retail interest in swap agreements with respect to energy products. The interviewees generally noted that retail customers currently have access to a wide range of derivative instruments and other alternatives to swap agreements to meet their financial needs, for example, for purposes of hedging or gaining exposure to particular securities or interest rates. To the extent that non-ECPs might seek to use swap agreements to protect against adverse price movements with respect to household or business expenses (e.g., interest rates, energy prices), several interviewees suggested that in most circumstances it would be cheaper and more convenient for non-ECPs to purchase such protection together with the underlying loan or commodity, rather than in a separate transaction.

B. Extent to Which Institutions Are Willing to Offer Swap Agreements to Persons Other than ECPs

According to most of the interviewees, derivatives market participants are not generally planning to offer swap agreements to retail customers at present, apart from the interest there may be in offering retail swaps with respect to energy products. In general, the interviewees noted that firms currently have no commercial interest in offering swaps to retail customers because there is no demonstrable demand for them. Lack of demand is apparently sufficient to preclude any desire on the part of these institutions to explore issuance of these instruments, thus obviating the need to analyze legal issues.

In responding to any customer demand for such products that might arise in the future, some interviewees identified specific considerations derivatives firms would need to address generally in developing and marketing swap products to non-ECPs. In particular, to the extent that non-ECPs were to prefer retail swaps over existing alternatives because of specific perceived advantages – such as greater flexibility – firms would have to consider the costs associated with providing those features in a retail context. These include, for example, administrative issues associated with negotiating retail swaps, the potential credit risks of offering retail swaps to non-ECPs, and the need to implement sales practices for the offering of swap agreements to non-ECPs.

Administrative Issues. Four interviewees specifically indicated that administrative and technological issues related to the entering into and preparing the documentation of retail swaps would have to be considered in developing a profitable business model for such products. For example, to make offering of retail swaps feasible from an administrative and technological perspective, swap dealers may need to standardize retail swaps significantly. Standardization could facilitate the swap

This issue is discussed in Appendix 3.

dealer's management of exposure and enable it to take advantage of economies of scale in marketing and distribution. On the other hand, one firm suggested that the principal advantage of swap agreements over existing standardized or exchange-traded instruments is their flexibility, in that they could be structured to meet specific customer objectives. Accordingly, it appears that one challenge for firms in determining the feasibility of offering retail swaps is the potential tension between the desire to mitigate infrastructure costs by standardizing terms of retail swaps and the need to offer products that would meet the financial objectives of specific retail customers.

Creditworthiness. Three interviewees specifically noted that swap dealers would have to consider the ability to monitor the creditworthiness of non-ECPs in developing a viable retail swap product for retail customers, particularly in light of the expected size and profitability of retail transactions. Several of the commercial and investment banks interviewed indicated that, in the context of their existing swap business with ECPs, they employ extensive risk management practices to control their credit exposure to counterparties. These practices usually include, among other things, extensive analysis and monitoring of the counterparty's financial status by a credit committee or similar body, in light of particular transactions being contemplated.

Sales Practices and Appropriateness. Two of the firms interviewed specifically noted that derivatives firms would need to develop adequate sales practice procedures to assess the appropriateness of swaps for retail customers to protect themselves against the risk of private litigation or, where applicable, regulatory enforcement proceedings. Many of the commercial and investment banks interviewed indicated that they currently have highly detailed procedures for ensuring the appropriateness of equity options offered to certain ECP clients, such as private banking clients. In evaluating the appropriateness of individual transactions for their existing ECP clients, the commercial and investment banks interviewed indicated that they often produce multiple drafts of term sheets, engage in frequent discussions with the client, and consult with various departments within the firm to ensure thorough analysis.

One firm expressed the view that it would be very difficult, in light of the extensive procedures it currently employs in transactions with ECPs to justify recommending a swap transaction to a retail customer.

Legal Uncertainty. Two interviewees remarked that legal uncertainty was an impediment for the development of retail swaps with respect to energy products. Given the lack of interest in offering other types of retail swaps, however, it does not appear that most institutions have felt the need to analyze comprehensively CEA issues as they might apply to retail swaps.

In this connection, most interviewees strongly advised against taking legislative action regarding the application of the CEA to retail swaps. As discussed in greater detail in Part II.C below, these interviewees believe that legislative action with respect to retail swap transactions, in the absence of evidence of demonstrable retail demand or institutional interest in offering most of these instruments, does not appear justified. C. Appropriate Regulatory Structure to Address Customer Protection Issues that May Arise in Connection with the Offering of Swap Agreements to Persons Other than ECPs

The interviewees generally believed that it is premature to consider the appropriate regulatory structure to address customer protection issues that may arise in connection with the offering of retail swaps in the absence of demonstrable demand for a retail swaps product. There was a general reluctance among most of the interviewees to address CEA issues legislatively so soon after the enactment of the CFMA, which served to resolve many of the legal issues about which swap market participants had been concerned.

One interviewee noted that creating a regulatory regime for a product that does not as yet exist could have the effect of channeling business into artificial regulatory structures that are unnecessary and do not address the needs of the market place. Another interviewee cautioned that unnecessary legislative or regulatory activity to create such a product might stimulate artificial interest in a product that could, in turn, give rise to abusive marketing or sales practices by unregulated entities.

As noted above, one interviewee indicated that there is interest in offering retail swaps with respect to energy products, for example, to small businesses that do not meet the ECP criteria of the CFMA. With respect to the appropriate manner to address CEA issues for such products, the interviewee did not advocate a legislative solution, nor did it propose the development of a new regulatory regime for these products. Two other interviewees observed that firms interested in offering retail swaps would generally prefer to seek regulatory relief for such products on an case-by-case basis instead of reopening the CFMA for debate in light of the considerations discussed above.

Some firms suggested that there was no need for a specialized regulatory structure to address public policy issues. Likewise, several interviewees expressed concern that a specialized regulatory framework for retail swaps might affect traditional products -- such as contracts that offer price or interest-rate protection in connection with an agreement to provide the underlying commodity or loan -- that are offered subject to existing federal and state regulation. One firm identified the following issues for consideration by policymakers in determining the need for regulation and the appropriate regulatory structure for retail swap products:

- whether there exists, or is any need for, a special federal or state regulatory
 framework for the underlying instrument, and the extent to which unregulated swaps
 activity might affect regulated markets for the underlying instrument (e.g., price
 discovery mechanisms in securities markets);
- whether federal law would preempt the application of state laws to retail swap products;
- whether the party offering a retail swap product is a regulated entity subject to adequate regulation; and

 how regulatory action might result in offshore migration of derivatives activity, and how offshore activity might affect a domestic retail swaps market.

III. CONCLUSIONS AND RECOMMENDATIONS FOR LEGISLATIVE ACTION

The agencies do not believe it is necessary at this time to recommend legislative action for swap agreements offered to persons other than ECPs.

According to the interviewees, persons who are not ECPs seem at this time to have sufficient instruments at their disposal to meet their risk management and investment needs, and there is currently a lack of interest among most major market participants in offering swaps to retail customers. As noted in this report, energy swaps are a possible exception to both findings.

With respect to retail energy swaps, it is possible, upon request by a market participant, that the CFTC could exercise administrative authority as appropriate, on a case-by-case basis, within the limitations of its current statutory jurisdiction under the CEA regarding such requests. In this connection, the CFTC would need to consider, among other issues, the extent of its authority to grant relief, whether the granting of such relief would be in the public interest, and any implication such relief might have on potential state regulation of such products.

If at some future date interest in retail energy swaps increases beyond the scope of the CFTC's authority to address regulatory issues related to these products in a satisfactory manner, Congress may wish at that time to consider the desirability of further legislative action with respect to the legal status of and federal regulation, if any, of retail energy swaps, as they did in the CFMA with respect to OTC transactions in foreign currency with retail customers. If further legislation is considered in the future, in addition to the specific regulatory issues identified by the interviewees, consideration should be given at that time to the economic functions served by retail energy swaps, the public interests to be protected, and the impact of any new regulatory regime on the development of retail products.

Appendix 1 List of Interviewees

JP Morgan Chase & Co.
Investment Banks:
Goldman Sachs Inc.
Lehman Brothers Inc.
Morgan Stanley Dean Witter
Others:
Blackbird Holdings, Inc.
Enron Energy Services, Inc.
International Swaps and Derivatives Association

Commercial Banks:

Bank of America

Appendix 2 List of Interview Questions

- What do you see as the potential uses of retail swaps?
- Are you willing to offer retail swaps (or currently doing so)? If not, why not?
 - What types of underlying assets?
 - What type of contracts?
 - In what notional amounts?
 - What types of retail customers? Individuals? Small businesses? Other?
 - What are the risks involved in offering these products? How would you (do you) manage those risks?
- 3. What is the appropriate regulatory structure to address customer protection issues that may arise in connection with the offering of retail swaps?
 - · Is there a need for regulation to protect customers?
 - Should the regulatory structure differ depending on whether the entity offering/booking the swaps is otherwise regulated?
 - Should the regulatory structure differ depending on whether the market for the underlying asset is subject to regulation?
- 4. What other matters (for example, tax and other regulatory issues) are necessary or appropriate for a study of retail swaps to address?

Appendix 3 The Taxation of Over-the-Counter Derivatives in the Hands of Retail Customers ¹

The following discussion considers the tax issues that may arise if over-the-counter derivatives are made available to persons other than eligible contract participants. Throughout the discussion, the distinction between hedging activities undertaken by retail customers pursuing a trade or business and those undertaken in other contexts is a critical determinant of the applicable tax treatment.

Investment Versus Hedging Activities

Retail customers may enter over-the-counter ("OTC") derivatives contracts for purposes of either investment or hedging.² Where the motivation is the opportunity for gain, the transaction may be characterized as investment, and there are essentially no tax issues peculiar to OTC derivatives. Current law addresses the taxation of investment contracts of all kinds in the hands of natural persons, corporations, and pass-through entities such as partnerships. Although a realization-based system favors certain investment products over others, there is no reason to believe that the current system poses any differential obstacles to retail customers entering OTC derivatives contracts for purposes of investment.³

Tax Hedges

Current law recognizes the economic importance of business hedges by offering a regime under which taxpayers may reasonably match the timing of gain or loss from an existing exposure with the timing of loss or gain from the hedge. This ability to match timing for tax purposes is critical as, in the absence of special hedging rules, there will often be a mismatch between the timing of the tax consequences of the hedge and the timing of the tax consequences from the existing exposure. For

This appendix was prepared by Treasury Department staff and does not reflect the views of the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, or the Securities and Exchange Commission.

As used in this appendix, the term "retail customers" refers to individuals and business that are not eligible contract participants as defined in the Commodity Exchange Act, "investment" includes speculation, and "hedging" is used in its colloquial sense, regardless of whether there is a hedging transaction for tax purposes.

A realization-based system imposes tax on the gains from most investment contracts at the time of a "realization" event, typically a sale. For example, tax is assessed on the gains from a stock investment only after the shares have been sold. In contrast, a mark-to-market system imposes tax at regular intervals even if no realization event has occurred. Such systems involve measuring the fair market value of a position at the close of the tax period and calculating tax based on any gain or loss during that period. Only certain instruments and specific classes of taxpayers must mark to market under current law. In addition, if a taxpayer eliminates substantially all of the opportunity for gain and risk of loss from an appreciated financial position, tax on the appreciation may be triggered as if the position had been sold.

example, an airline hedging the cost of jet fuel may do so with a mix of instruments that produces tax consequences for the airline that are taken into account at times that are different from the times when the airline takes its fuel expenses into account for tax purposes. Under the special hedging provisions, a taxpayer may reasonably match the timing of the tax results of the hedge to the timing of the deduction for the fuel expenses.

By also matching the tax character of gains or losses from business hedges with the tax character of the existing exposure, the tax system ensures that both are taxed not only at the same time but also at the same rate. Indeed, in the absence of a provision preventing hedges from producing capital gains and losses, some hedging losses would become temporarily or even permanently nondeductible.

To qualify for this treatment, however, a number of conditions must be satisfied: First, the existing exposure that is hedged must be in the context of a trade or business. Hedges reducing exposure related to personal consumption, including those for household energy usage, are therefore not accorded this treatment.

In addition, only certain types of exposures fall under these provisions. For the hedge to receive the special tax treatment, the existing exposure must be an ordinary item. For example, it may depend on the price of ordinary property, that is, property that does not produce capital gain or loss for tax purposes. Business inventory is perhaps the most obvious example of ordinary property. Capital assets, including stocks and other personal property, fall outside of this category. A tax hedge may also be used to protect against adverse movements in the cost of borrowing or the price underlying other ordinary business expenses. Excluded, however, from the category of permitted exposures are cash flows, whether dividends or business profits.

There is no reason, in principle, why retail customers could not rely on the tax hedge provisions to facilitate business hedging activities that employ OTC derivatives. The requirement that a tax hedge must be in the context of a trade or business, however, excludes significant classes of potential retail customers. For these customers, even if the hedged exposure results in taxable income or deduction, the inapplicability of the tax hedge regime makes possible a mismatch between the timing of the tax consequences of the hedged exposure.

Non-Deductibility of Payments Pursuant to OTC Derivatives

Hedging outside the context of a trade or business raises another fundamental difficulty. Under current law, non-business retail customers would find that gains with respect to the hedging instrument are generally taxable at the rates applicable to ordinary income, but losses are, at best, only partly deductible. For example, the hedging losses may be subject to the limitations on the deductibility of capital losses or to the total ban on deductions for expenditures for personal consumption. This

⁴ Many hedges would produce short-term capital gains and losses.

asymmetric treatment might discourage retail customers from using OTC derivatives to manage risk outside the context of a trade or business.

Under Federal tax law, most OTC derivatives contracts entered by retail customers are "notional principal contracts" ("NPCs"), which are defined as a "financial instrument that provides for the payment of amounts by one party to another at specified intervals calculated by reference to a specified index upon a notional principal amount in exchange for specified consideration or a promise to pay similar amounts." This definition includes many common OTC derivatives designed to hedge exposure to energy prices. Under these derivatives, payments are calculated based on an index derived from energy prices.

Among the cash flows pursuant to NPCs are periodic payments. These payments could, under a typical NPC, flow either from the retail customer to the dealer or from the dealer to the retail customer. Again considering the example of a contract to hedge exposure to energy prices, payments might flow to the retail customer after any month in which actual prices rose above a threshold level specified in the contract. Should prices instead fall below a threshold level, the retail customer would have to make the monthly payment. For those entering such OTC derivatives contracts in the course of a trade or business, payments received would be included in income, and subject to tax at the ordinary rate. Payments made pursuant to the contract would be deductible as a normal business expense.

For those wishing to hedge outside of the context of a trade or business, however, the symmetry would break down. Payments received from the dealer would be included in income and taxed at ordinary rates. On the other hand, payments made to the dealer might not be deductible. The prospect of taxation of payments from the dealer, with no potential offset in the form of deductible payments to the dealer, would reduce the attractiveness of retail OTC derivatives products.

Also of concern from a tax policy perspective is the fact that the asymmetry, which effectively
"whipsaws" taxpayers, is effectively eliminated if the hedge is imbedded into an energy sales contract.
Once again considering the case of the household energy contract, the asymmetry disappears if an
energy supplier contracts with a customer to provide electricity at a fixed rate during a specific period of
time. Economically, this arrangement is not different from spot purchases combined with a hedge
because the gains and losses on the imbedded hedge are reflected in the fixed price paid for the
electricity. When the spot price is low and the fixed price exceeds the spot price, there is in effect a loss

⁵ Treas. Reg. § 1.446-3(c)(1)(i).

In addition, hedging outside a trade or business context does not constitute a tax hedge; thus the retail customer is unable to reasonably match for tax purposes the timing of gain and loss from the existing exposure with gain and loss from the hedging instrument.

⁷ Even if such payments were deductible, individual income taxpayers are subject to a 2 percent floor on miscellaneous deductions. Unless the amount of such payments, coupled with other miscellaneous deductions such as unreimbursed employee expenses, exceeds 2 percent of adjusted gross income, no deduction is permitted.

on this imbedded hedge. When the spot price is high, the situation is reversed and the imbedded hedge economically produces a gain. In this case, neither the gain nor the loss on the imbedded hedge is a tax event; so the treatment (or non-treatment) is entirely symmetric. One of the basic principles of good tax policy is neutrality, in the sense that tax concerns should not provide incentives to make a particular choice among economically equivalent transactions. In this case, however, there is a clear tax incentive to purchase both electricity and imbedded risk management from a single supplier, rather than purchasing electricity from one source and risk management from another.

Gabilondo, Jose

From:

Subject:

Carleton, Norman

Sent:

Friday, December 07, 2001 12:47 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared, Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

DJ: Dynegy Files Motion To Transfer Enron Bankruptcy Case

December 7, 200	11		
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Dynegy Files Motion To Transfer Enron Bankruptcy Case

By Kathy Chu of DOW JONES NEWSWIRES

NEW YORK -- Dynegy Inc. (DYN) filed a motion late Thursday to transfer former merger partner Euron Corp.'s (ENE) bankruptcy case to Houston.

The case - the largest ever in corporate history - is currently presided over by Arthur J. Gonzales in the Bankruptcy Court of the Southern District of New York.

With its court filing, Dynegy joins Enron's 401(k) plan holders and some of the energy-trading company's creditors in seeking a change of venue.

In its motion, Dynegy noted that hearing the case in the Bankruptcy Court of the Southern District of Texas would make it more convenient for creditors, the debtors and witnesses to attend the hearings.

Also, Enron "will not suffer any economic harm or inconvenience if this case is transferred to the district in which its headquarters and business operations are located," according to the filing. "In fact, just the opposite is true. The costs to both creditors and the debtors in terms of both time and money will be astronomnical if these cases remain in the Southern District of New York."

The change-of-venue motions are scheduled to be heard by federal Judge Gonzalez in a Jan. 7 hearing.

Enron couldn't immediately be reached for comment.

The parent company, Enron Corp., and almost all of its 19 units that have filed for Chapter 11 bankruptcy protection are based in Houston. But Enron Metals & Commodity Corp. is headquartered in New York.

Enron currently employs about 3,500 workers in Houston - after laying off 4,000 there earlier this week - and about 250 in New York.

The company's problems began two months ago when it reduced its shareholder equity by \$1.2 billion and admitted that it had moved assets and debt off its balance sheet to limited partnerships controlled by Enron executives. In November, the company restated more than four years' worth of financial results, cutting earnings by a total of \$586 million.

Dynegy agreed to buy the troubled company in a deal valued at more then \$9 billion, but later backed out after other financial problems were disclosed and credit-rating agencies cut Enron's notes to junk-bond status.

After filing for bankruptcy, Enron also filed a \$10 billion lawsuit against Dynegy. Dynegy, in return, filed a countersuit to stake its claim to a valuable Enron asset, the Northern Natural Gas pipeline.

The odds seem to be slightly against the transfer of Enron's bankruptcy case to Houston.

Because unit Enron Metals & Commodity is located in New York, the parent company has the jurisdiction to file for bankruptcy protection here, according to legal experts.

"I would give (the motions) a 30% to 40% chance of success - significant, but not a slam dunk," said Nancy Rapoport, dean of law at the University of Houston.

An alternative to moving the case to Texas would be for Judge Gonzalez to appoint an additional creditors committee to represent the interest of employees, according to Rapoport.

The U.S. Trustee Office, a division of the Department of Justice, will hold a meeting Dec. 12 to form the creditors committee - provided for under Chapter 11 law. The group will play a pivotal role in steering creditors' positions in court.

Bankruptcy experts said it's likely that one committee will be appointed at that time, and another group will be named later - in order to ensure that the interests of all parties are accounted for in what is likely to be one of the most complex bankruptcy cases ever.

Traditionally, only one official committee represents the interests of all creditors in bankruptcy proceedings.

-By Kathy Chu; Dow Jones Newswires; 201-938-5392 kathy.chu@dowjones.com

Gabilondo, Jose

From:

Carleton, Norman

Sent:

Tuesday, December 04, 2001 11:06 AM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley,

Jean; Wiedman, Mark

Subject:

WSJ: December 4, 2001 Creditors Look for Their Advantage

December 4, 2001

Major Business News

As Enron Heads to Bankruptcy Court, Creditors Look for Their Advantage

By HENNY SENDER

Staff Reporter of THE WALL STREET JOURNAL

Enron Corp.'s Chapter 11 bankruptcy filing marks the beginning of complicated jockeying as hundreds of creditors seek to get the most they can at the expense of other creditors.

Filings expected to be submitted to the court subsequent to Enron's original petition Sunday will at least partially lift the veil of secrecy that has long hovered over the company's dealings. But for now, few of Enron's many unsecured creditors have any idea how much they can hope to recover, thanks to Enron's complex structure and the huge liabilities that were tucked away in partnerships not consolidated onto the company's balance sheet.

In its Chapter 11 filing, Enron Corp. listed \$13.15 billion in debt. When combined with obligations of its 13 subsidiaries also in bankruptcy proceedings, on-balance-sheet debt totals \$31.24 billion. Some bankers who are involved estimate the parent company has an additional \$27 billion in off-balance-sheet and contingent liabilities. The combined list of creditors attached to Enron's bankruptcy filing is 54 pages long.

Precisely because there are so many claims, the contesting among Enron's creditors is expected to be especially fierce. While bankruptcy law specifies a clear ranking of claims — with senior secured creditors at the top of the pyramid, the mass of unsecured claims beneath them and equity holders at the bottom — bankruptcy proceedings aren't always set in stone.

[Go]See full coverage of the rise and fall of Enron

"Chapter 11 is the only place in the legal system where you can alter the rights of one creditor against another and alter the distribution of losses," said Stephen Case, a bankruptcy lawyer with

1

Davis Polk Wardell in New York.

In coming weeks, Enron will file other legal documents that will be widely scrutinized by creditors and potential vulture investors, who buy distressed debt, for information about the ultimate value of the company.

Until now, many distressed-debt players have been on the sidelines, citing the impossibility of understanding Enron's business operations, the extent of its liabilities and the possibility that its financial records contain misstatements beyond the restatements announced last month by Enron.

"Traditionally, immediately after a bankruptcy filing, a flurry of opportunistic investors will look at the company," said Edward Tillinghast, a **bankruptcy lawyer** with Coudert Brothers in New York. "It is easier to analyze after bankruptcy because so much more information becomes available."

"After a filing, the paper tends to get concentrated," added Mr. Case of Davis Polk. "Many institutional investors have to dump their securities because they don't want to be seen in [or aren't allowed to hold] defaulted paper. So they call the vulture funds and ask them to take it off their hands."

Complicating the negotiations: Claimants and creditors are a varied lot with diverse interests, reflecting Enron's combination of physical and financial assets -- thousands and thousands of financial contracts, whose value is uncertain and likely to be highly contentious.

Usually, it is the unsecured creditors who compete most intensely for a share of the assets. In order to compete, the savviest creditors, such as the distressed-debt funds, which usually acquire debt positions at discounted prices, engage in a variety of strategies. For instance, they may threaten senior classes with the specter of a long drawn-out legal battle unless concessions are made. Or, because each class of creditors gets to vote on any settlement, one party may buy up others' claims in order to control just over a third of the debt of that class — enough to influence the entire outcome.

It is even possible to gain control of the company through skillful maneuvering, though it isn't clear that anyone would want to in Enron's case.

Write to Henny Sender at henny.sender@wsj.com <mailto:henny.sender@wsj.com>

Gabilondo, Jose

From:

Carleton, Norman

Sent:

Tuesday, December 04, 2001 11:20 AM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heldilynne; Sharer, James; Whaley,

Jean: Wiedman, Mark

Subject:

Bloomberg: Enron Takes 1st Steps in Bid to Negotiate Bankruptcy (Update5)

12/04 09:52

Enron Takes 1st Steps in Bid to Negotiate Bankruptcy (Update5)

By Jeff St.Onge

New York, Dec. 4 (Bloomberg) — Enron Corp. is working to survive history's biggest Chapter 11 reorganization, lining up a \$1.5 billion bankruptcy credit line, getting permission to spend money to keep operating and firing 4,000 workers.

An Enron attorney told U.S. Bankruptcy Judge Arthur Gonzalez the company is talking with backers to revive its energytrading business under new ownership. The operation, Enron's most profitable, unraveled after the Houston-based company in October posted a third-quarter loss of \$1.01 billion.

While the line of credit eliminated one immediate threat, trading partners are hard to find, rival Dynegy Inc. is seeking to take over an Enron pipeline and federal authorities are investigating what sent the biggest energy trader into bankruptcy. Competitors such as Suez SA, the second-biggest water company, are looking at buying company assets as Enron raises money.

"The key issue now for Enron's creditors is whether the company can salvage material value from its trading operations before their critical mass of personnel, expertise and reputation dissolves," said Jeff Werbalowsky, senior managing director at Houlihan Lokey Howard & Zukin,

In an indication that unsecured creditors don't expect to be repaid in full, Enron's 6 3/8 percent bonds due in 2003 traded around 24 cents on the dollar, according to Bloomberg data.

Shares of Enron rose 39 cents to 79 cents. Shareholders are last in line to be paid in Chapter 11 cases and typically get nothing if other creditors aren't fully reimbursed.

Business Challenges

Erron is courting investors to revive its crippled trading business, even as it loses customers who fear the company will be unable to make good on its obligations. The company is in talks with financial institutions to fund the wholesale trading business "under new ownership," Chief Operating Officer Greg Whalley said in a statement.

Erron is negotiating with J.P. Morgan Chase & Co., Citigroup Inc.'s Salomon Smith Barney and UBS AG about a possible joint venture to run the energy-trading operations, the Wall Street Journal said, citing unidentified sources.

The trading business is the most valuable part of Enron, analysts say. "If they don't resurrect it, they have an extreme problem," said Jon Kyle Cartwright, an analyst with Raymond James & Associates. "Cash alone won't save the operation, they need someone to run it" because of Enron's low credit ratings and deteriorated credibility, he said.

At EnronOnline, the Web site that once handled \$2.8 billion in commodity transactions a day, trading has plunged, raising doubts that Enron will be able to rescue the business. Enron customers such as Mirant Corp. and Aquila Inc. have taken business elsewhere.

"Until we've seen the fallout from this bankruptcy, I don't think you're going to find a lot of entitles that are prepared to trade with" Enron, said Daniel Gordon, head of commodities trading at Hagerstown, Maryland-based Allegheny Energy Inc., which owns utilities in five states.

Meanwhile, European companies began scrutinizing Enron's assets. Suez is interested in some of Enron's holdings, said Jacques Van Hee, a spokesman for its energy unit. Glencore International AG yesterday said it was considering Enron's metals- trading business.

Legal Threats

Enron's woes come at a time when the U.S. economy is in its first recession in about a decade and the European and Japanese economies are also shrinking. As of last month, a record 224 publicly traded companies had filed for bankruptcy in the U.S. this year, 27 percent more than last year's record 176, according to BankruptcyData.com, a Boston-based Web site. Filers range from Bethlehem Steel Corp. to Polaroid Corp.

Lawsuits and federal investigations are adding to Enron's difficulties. The U.S. Department of Justice has started a criminal probe of Enron's dealings, the Wall Street Journal reported Monday, citing unidentified sources.

Dynegy is suing in a Texas court to gain control of Erron's Northern Natural Gas Co. pipeline. Erron went to court first, seeking \$10 billion over its rival's abandonment of a \$23 billion merger.

Enron's nosedive -- its shares have lost 99 percent of their value -- has also placed a spotlight on Arthur Andersen LLP, the company's auditor. Enron said last month it overstated its 1998 income by \$113 million. The Securities and Exchange Commission is investigating.

Enron workers are suing over losses to their retirement accounts.

\$1.5 Billion Loan

With just \$500 million left to fund operations, Enron yesterday won Gonzalez's permission to draw \$250 million of the \$1.5 billion in Chapter 11 financing from a bank group led by J.P. Morgan Chase and Citigroup Inc.'s Citibank. A hearing to approve use of the full amount was set for Jan. 7.

The company will use more than a third of the \$1.5 billion credit line to repay an earlier \$550 million unsecured loan from J.P. Morgan Chase and Citibank to Enron's Transwestern Pipeline unit.

The new loan would be paid out ahead of all previous debts. The unit will likely file for bankruptcy once its debts have been repaid, said Donald S. Bernstein, an attorney for J.P. Morgan Chase.

Erron also got Gonzalez's permission to spend as much as \$40 million to complete construction of its office tower in Houston and as much as \$8 million for Internet access and other expenses critical to trading energy.

Firing Workers

Seeking to cut costs, Enron eliminated 4,000 jobs at its Houston headquarters, more than half its staff there. The company had about 21,000 employees at the end of September, two-thirds in the U.S., about a fifth in the U.K. and the rest in other parts of the world. It fired 1,100 workers in the U.K. last week.

Judge Gonzalez approved Enron's request to pay fired employees from \$4,500 to \$15,000 in severance.

Enron Chairman and Chief Executive Officer Kenneth Lay said he will try to keep workers who are running trading operations, which used to provide 97 percent of Enron's revenue.

Enron and at least 13 units declared bankruptcy Sunday, listing total assets of \$49.8 billion and debts of \$31.2 billion. The company's Enron Gas Liquids Inc. unit on Monday filed for bankruptcy, adding more assets to the case.

More Enron units will file for bankruptcy "in the days ahead," the company's attorney Martin Bienenstock told Gonzalez in court yesterday.

"We do not today have every 'i' dotted and every 't' crossed," in preparing the Chapter 11 reorganization, he said.

Gabilondo, Jose

From:

Carleton, Norman

Sent:

Wednesday, November 21, 2001 1:23 PM

To:

Gabilondo, Jose

Subject:

FW: Bloomberg: Enron Gets Extension on \$690 Mln Note Due Next Week (Update1)

····-Original Message----

From:

Carleton, Norman

Sent:

Wednesday, November 21, 2001 1:14 PM

To:

Roseboro, Brian; Bair, Sheila; Gross, Jared; Wiedman, Mark; Cetina, Jill; Sharer, James; Pietrangeli, Fred; Berardi, Steve; Whaley,

Jean; Nickoloff, Peter; Schultheiss, Heidlynne; Novey, Michael; Hammer, Viva; Eichner, Matthew; Bitsberger, Timothy

Subject:

Bloomberg: Enron Gets Extension on \$690 Mln Note Due Next Week (Update1)

11/21 12:38

Enron Gets Extension on \$690 Mln Note Due Next Week (Update1)

By Mark Johnson

Houston, Nov. 21 (Bloomberg) — Enron Corp., whose shares had dropped 92 percent this year amid a financial crisis, said lenders extended to mid-December the payment date on a \$690 million note due next week.

Erron, which agreed to be bought out by rival energy trader Dynegy Inc. in a transaction now valued at more than \$23 billion, said earlier this week a drop in its credit rating may force it to repay the \$690 million note. The repayment would strain cash reserves Enron needs to back its trading operations, investors and analysts said.

The Houston-based company didn't say in its release who holds the note, which is owed by an affiliated partnership that owns Brazilian natural-gas assets and was backed by Enron.

The note is held by a group of banks led by the Citibank unit of Citigroup Inc., Standard & Poor's said in a press release yesterday.

Enron also is in discussions with other lenders on a restructuring of its debt, the company said in a statement distributed by PR Newswire.

"We believe the interests of Chase and Enron's other primary lenders are aligned in this restructuring effort," James Lee, vice president of JP Morgan Chase & Co., said in the Enron statement. "We will work with Enron and its other primary lenders to develop a plan to strengthen Enron's financial position up to and through its merger with Dynegy." Morgan has been advising Enron on its merger with Dynegy.

Error said yesterday it may have to pay \$9.15 billion in debt due by 2003, suggesting the company may run out of cash before the merger closes. Dynegy has said the merger should close before the end of the third quarter of 2002.

Enron said in a regulatory filing that it has less than \$2 billion in cash or credit lines.

Shares of Enron, the most active stock in U.S. trading, fell \$1.79, or 23 percent, to \$5.20 in midday trading. Before the announcement that it had renegotiated the \$690 million note, its shares had fallen as much as 42.78 percent, the lowest level in more than a decade.

Dynegy fell \$2.50, or 6 percent, to \$39.20. Shares of ChevronTexaco Corp., which owns 26 percent of Dynegy, rose 49 cents to \$87.02

Gabilondo, Jose

From:

Carleton, Norman

Sent:

Wednesday, November 21, 2001 1:22 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred;

Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

Dow Jones Newswires: Enron Closes On \$450M Secured Credit Line

November 21, 2001

Enron Closes On \$450M Secured Credit Line

HOUSTON -- Enron Co. (ENE) closed on the remaining \$450 million of a previously announced \$1 billion in secured credit lines and said it is in active discussions to restructure its debt to improve liquidity.

In a press release Wednesday, Enron said the \$450 million credit facility is secured by the assets of Enron's Northern Natural Gas Co.

A \$550 million credit facility, secured by the assets of Enron's Transwestern Pipeline Co., closed Nov. 16. The proceeds are being used to supplement short-term liquidity and to refinance maturing obligations.

The company said the maturity on its \$690 million note payable obligation will be extended to mid-December.

Dow Jones Corporate Filings Alert reported Monday that **Enron** is currently preparing a restructuring plan aimed at taking aggressive steps to rationalize the company's existing cost structure, accelerating the process of divesting noncore businesses and assets and restructuring scheduled maturities of debt and other obligations.

Enron's credit lines are from J.P. Morgan, the investment-banking arm of J.P. Morgan Chase & Co. (JPM), and Salomon Smith Barney, the investment-banking arm of Citigroup Inc. (C).

Enron also reaffirmed its commitment to the merger with Dynegy Inc. (DYN). On Nov. 9, **Enron** and Dynegy signed a definitive merger agreement that would give **Enron** shareholders 0.2685 share of a Dynegy share. The merger is expected to close by the end of the third quarter of 2002.

On Monday, **Enron** filed its Form 10-Q for the third quarter, which reflected a wider loss by 3 cents a share. The energy company previously reported a loss of \$618 million, or 84 cents a share, on revenue of \$47.6 billion for the third quarter ended Sept. 30.

-Stephen Lee: Dow Jones Newswires; 201-938-5400

Enron Asset Prices Plummet and Expectations of a Default Rise Amid Significant Credibility Concerns

- Enron share and debt prices have declined sharply following revelations that its shareholder's equity dropped significantly and the SEC opened a formal investigation into transactions between Enron and the partnerships headed by its former CFO.
- Ratings downgrades of Enron's senior debt to two notches above junk status and rumors that the company is seeking a private equity infusion have further increased concern about the company's near-term liquidity position and a potential default.
- Spillover into the broader markets has reportedly been limited thus far to the share and debt prices of large energy merchants and power producers. To date, there has reportedly been little impact on trading conditions in the commodity markets or natural gas and electricity prices.

Enron's asset prices have declined significantly since mid-October, when Enron first disclosed a \$618 million thirdquarter loss and a \$1.2 billion reduction in shareholder's equity. Additionally, the announcement that the SEC would
be conducting a formal investigation of Enron's related-party transactions, as well as the subsequent downgrades to two
notches above junk status by Moody's and S&P further weighed on investor confidence. Market participants are
particularly concerned as a downgrade to below investment grade status from Moody's or S&P could reportedly reduce
counterparties' willingness to conduct business with Enron and could further lower Enron's ability to secure additional
funding. Enron's share price has declined over 65 percent since mid-October, and is currently trading below \$10 per
share for the first time in 9 years.



The price on Enron's benchmark bond (6 3/4 of 2009) has traded significantly lower since mid-October, with the
spread to comparable Treasuries breaching the 1,000 basis point level. Once this occurred, the bonds have begun
trading more in line with high yield bonds and are trading on many distressed debt desks. Trading liquidity in the
debt has progressively worsened, with bid-ask spreads quoted anywhere from 1 point for small trades to 3 to 5

points (100 to 200 basis points) for larger trades. For some perspective, a high quality, medium to large investment grade issue could trade with a bid-ask spread of 5 to 10 basis points.

Enron Bond Spread to Treasuries (from JP Morgan)					
	3-months ago	1-month ago	Today (11/07/01)		
5-year	+130	+270	+1750		
10-year	+160	+290	+1440		
30-year	+190	+320	+705		

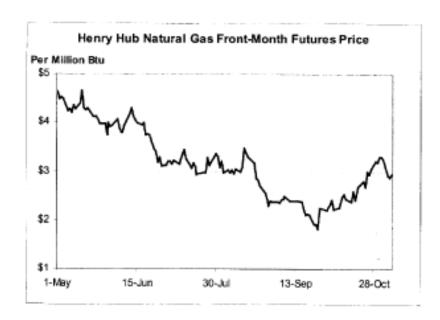
In the credit default swap market, which is used by market participants as a hedge against a credit event in a
specific issue, Enron spreads have widened significantly. The premium fee for Enron, which is based on an
annual percentage of the par value of the security that is being insured, rose from 260 basis points at the beginning
of September to between 2,000 and 3,000 basis points today. Anecdotally, market participants in the credit
default swap market expect if a credit event involving Enron is to occur, it will happen in the next 3-months with
some suggesting that a 35 percent probability of an Enron credit event is being priced in.

Spillover in the broader equity and bond markets appears to be limited thus far to large energy merchants and power and utility companies. Market participants explained that while share prices in the sector have been trending lower this year given the political news surrounding the California power crisis and significantly lower electricity and natural gas prices, concerns about Enron have weighed on the sector. Specifically, investors note uneasiness about the extent to which such firms may be impacted through derivative and other trading-related exposures.

 Shares of the large energy merchant companies such as El Paso, Duke, and Dynegy are down 5 to 20 percent since mid-October. Spreads on the benchmark bonds of such companies also widened anywhere from 10 to 70 basis points to Treasuries, but have reportedly since stabilized. Furthermore, many energy companies are continuing to issue debt, with over \$4\$ billion in the energy sector expected to price this week.



 Some contagion effect has also been reflected in the credit default swaps of other large energy merchants, with premium spreads widening by 40 to 80 basis points since September. For example, the spread on El Paso widened 40 basis points to 320 basis points, while the spread on Mirant rose 50 basis points to 400 basis points. In the energy commodity market, traders report that trading in the natural gas and electricity markets remain liquid, price volatility remains within normal ranges, and supply and demand fundamentals continue to dominate price action. The CFTC also announced that it has no indication of futures markets disruptions involving Enron Trading Services, Enron's registered futures commission merchant. A few dealers have suggested that the 6.8 percent rise to \$3.25 per million Btu in the front-month Henry Hub natural gas futures contract last week was partially a result of Enron unwinding some short positions. However, several others explained that the rise in futures prices was due to an increase in demand from utility investors in combination with seasonal factors and the American Gas Association inventory report, which showed a smaller-than-expected increase in inventory levels.



Market participants note uncertainty about the impact on the energy markets should Enron's position worsen, as it
is difficult to know the totality of Enron's derivative positions in the natural gas and electricity markets. Some
have suggested that existing market hedges between multiple firms in the markets could begin to unwind, which
could add to short-term instability in the energy market, particularly natural gas. However, they note that terms
would likely be quickly renegotiated and price stability would return to the trading markets.

Market participants reportedly continue to trade on Enron's trading platform, EnronOnline, though some accounts may be more cautious about long-term exposure. EnronOnline reportedly handles 20 to 25 percent of all volume in the natural gas and electricity markets. While daily trading volume data for EnronOnline is not regularly reported, Enron announced on Monday that trading volume for all products on the platform was about 6,500 transactions, above the 30-day average of 5,800 transactions. However, energy merchant companies that compete with Enron, including El Paso and Dynegy, have publicly noted an increase in business activity as investors concerns about Enron have increased over the week.

Today, Dynegy and Enron confirmed earlier speculation that they are engaged in discussions about a possible business combination, but did not release any terms of the potential transaction. On this news, Enron bond prices rose, largely retracing this week's losses as short-term accounts covered short positions. The 10-year bond is about 10 points higher than yesterday's lows at 75 cents on the dollar, while the equity price is little changed. After declining on the news yesterday, Dynegy shares rose 11 percent and the price of its 10-year benchmark has partially retraced, trading at about 300 basis points above Treasuries as investors reportedly believe the deal would be done be under favorable terms for Dynegy.

Other primary trading platforms include DynegyDirect, Intercontinental Exchange (ICE), New York Mercantile Exchange, and TradeSpark in addition to several smaller electronic trading systems.





October 29, 2001

Dear Congressman/Congresswoman:

We, the undersigned organizations and companies comprising the USTrade coalition, urge you to support H.R. 3005, the Bipartisan Trade Promotion Authority Act of 2001. This important legislation will advance U.S. interests in bilateral, regional and global trade negotiations.

H.R. 3005 is a well-balanced bill. It will allow the United States to move ahead with new trade agreements while also promoting worker rights and environmental protection abroad. It is a reasonable compromise that will enable the United States to spur economic growth, exercise leadership, and provide new opportunities for American companies, workers and their families.

Trade Promotion Authority will enable the President to reduce foreign barriers and to expand American trade; it is badly needed in this time of great economic uncertainty. The bipartisan TPA bill also assures that American values will be advanced in a constructive way that will not drive trading partners away from the negotiating table.

We urge your support for H.R. 3005, and look forward to passage of this important legislation.

Sincerely,

3M

A.J. Antunes & Co.

A.O. Smith Corporation

ABB, Inc. Accenture

ACE INA Insurance

Advanced Medical Technology Association Aerospace Industries Association of America

Agilent Technologies, Inc.

Air-Conditioning & Refrigeration Institute Akin, Gump, Strauss, Hauer & Feld, LLP

Alcoa, Inc.

Alliance Management Group

Altran Corporation Aluminum Association

American Chamber of Commerce for Brazil/Rio

de Janeiro

American Apparel and Footwear Association American Association of Port Authorities American Boiler Manufacturers Association American Chamber of Commerce for Brazil/Sao

Paulo

American Chamber of Commerce of Trinidad &

Tobago

American Chamber of Commerce & Industry of

Panama

American Chamber of Commerce in Guatemala American Chamber of Commerce of Bolivia American Chamber of Commerce of El Salvador American Chamber of Commerce of Jamaica

American Chamber of Commerce of Nicaragua

American Chamber of Commerce of Peru American Chamber of Commerce of the

Dominican Republic

American Chamber/Mexico

American Chemistry Council

American Cotton Shippers Association American Council of Life Insurance American Electronics Association

American Feed Industry Association

1331 Pennsylvania Ave. NW Suite 600, Washington, DC 20004 (202) 637-3074 (202) 637-3182 fax www.us-trade.org American Forest & Paper Association

American Hardware Manufacturers Association

American International Group Inc.

American International Automobile Dealers

Association

American Meat Institute

American Paper Machinery Association

American Petroleum Institute

American Road & Transportation Builders

Americans for Tax Reform

AMT-The Assn. for Manufacturing Technology

Andreae, Vick & Associates, LLC

AOL-Time Warner APL Limited

Archer Daniels Midland Company Armstrong World Industries, Inc.

Asphalt Roofing Manufacturers Association

Association of American Chambers of

Commerce/AACCLA

Associated Industries of Massachusetts Associated Oregon Industries, Inc. Association for Competitive Technology

Association of Intl Automobile Manufacturers

AT&T Corp.

Automotive Trade Policy Council

Avon Products, Inc.

Bank of America Corporation

BASF Corporation Bechtel Corporation

Bergner, Boyette, Bockorny & Cloughs

Best Manufacturing Co.

Biotechnology Industry Organization

BPAmoco Corporation

Business Council for Int'l Understanding

C & M International C/K International, LLC Cadore Moda, Inc.

California Council for International Trade

Cargill, Incorporated

Caribbean/Latin America Action

CaseNewHolland Inc.

Caterpillar Inc. Cato Institute

Central Soya Company, Inc.

Chamber of Commerce of the US in Argentina Chamber of Commerce Uruguay-U.S.A. Chilean-American Chamber of Commerce Citizens Against Government Waste Citizens for a Sound Economy Cleveland-Cliffs Incorporated Coalition for Employment through Exports Coalition of New England Companies for Trade

Coalition of Service Industries Coastal Lumber Company

Colombian-American Chamber of Commerce

Compaq Computer Corporation Computer Sciences Corporation

ConAgra Foods, Inc.

Construction Industry Manufacturers Assoc.

Consumers for World Trade Coors Brewing Company

Costa Rican-American Chamber of Commerce

Council of the Americas DaimlerChrysler Corporation

Deere & Company

Dell Computer Corporation Denny Miller McBee Associates Dessault Falcon Jet Corp.

Detroit Regional Chamber of Commerce Distilled Spirits Council of the US

District Spirits Council of the Diversified Marketing, Inc. Doane Pet Care Company Domestic Petroleum Council Dow Coming Corporation DTB Associates, LLP Duberstein Group

DuPont

Dykema Gossett

Eastern Caribbean American Chamber of

Commerce

Eastman Kodak Company

Eaton Corporation

Emergency Committee for American Trade

(ECAT)

Ecuadorian-American Chamber of

Commerce/Guayaquil

Ecuadorian-American Chamber of

Commerce/Quito

EDS

El Nino Group, Ltd. Elan International

Electronic Industries Alliance

Eli Lilly and Company

Elkay Manufacturing Company

Emerson Enron Corp.

Equipment Manufactures Institute Excel Foundry and Machine, Inc.

ExxonMobil Corporation Farmland Industries Inc. Florida Department of State

Fluor Corporation FMC Corporation

Footwear Distributors & Retailers of America

Ford Motor Company
Foster Wheeler Corporation
French & Company (for IEMCA)
Garner Holt Productions Inc
Gemmex Intertrade America, Inc.
General Electric Company
Gibson, Dunn & Crutcher
Glass Packaging Institute

Global Trade Information Services

Goddard Claussen GPC International

Graham Architectural Products

Griffin Johnson

Grocery Manufacturers of America, Inc.

Guardian Industries Corp.

Haitian-American Chamber of Commerce &

Industry

Halliburton Company

Hasbro, Inc.

Hispanic Council on International Relations

Honda of America Mfg., Inc.

Honduran-American Chamber of Commerce

Honeywell Inc. Hotwatt, Inc.

IBFI

Information Technology Association of America

Information Technology Industry Council

Ingersoll-Rand Company

Intel Corporation

International Association of Drilling Contractors

International Business Machines
International Dairy Foods Association
International Housewares Association
International Ice Cream Association
International Intellectual Property Alliance
International Mass Retail Association

International Paper

International Trade Services Corporation

IPC

Islamic Institute ITT Industries James Orr Associates

Jefferson Waterman International John B. Shlaes & Associates

Johnson & Johnson Joint Industry Group Jones Walker Keizai Koho Center Lakeside Foods, Inc.

Liz Claiborne

Lockheed Martin Aeronautics Company

Lockheed Martin Corporation

Lunde & Burger MaerskSealand Manchester Trade

Manufacturing Jewelers & Suppliers of America

Marlock, Inc. Mars, Incorporated

Matsushita Electric Corporation of America

McDermott International Inc. Merck & Company, Inc.

Methanex Inc.

Miami Valley Marketing Group, Inc. Michigan Manufacturers Association

Milk Industry Foundation Minority Business Roundtable

Motor and Equipment Manufacturers Association

Motorola Inc.

National Association of Manufacturers National Association of Wheat Growers National Cattlemans Beef Association

National Cheese Institute National Corn Growers

National Council of Farmer Cooperatives National Customs Brokers & Forwarders Assn National Electrical Manufacturers Association

National Food Processors Association National Foreign Trade Council National Mining Association

National Oilseed Processors Association

National Pork Producers Council

Nestle USA Inc.

New Democrat Network

New York Life Insurance Company

Nike Inc.

North American Association of Food Equipment

Manufactures Novartis Corporation

NPES, The Association for Suppliers of Printing

OBC Group

Officemate Software Solutions Ohio Manufacturers' Association

Oklahoma State Chamber of Commerce &

Industry

O'Melveny & Myers

Paccar Inc.

Pacific Basin Economic Council

Packaging Machinery Manufacturers Institute

Pappas Associaties International Inc.

Paraguayan-American Chamber of Commerce

Patton Boggs LLP Pensico Inc.

Pet Food Institute

Pfizer Inc.

Pharmaceutical Research and Manufacturers of

America

Philip Morris Companies Inc. Philippi-Hagenbuch, Inc.

Pioneer Hi-Bred International Inc. Plumbing Manufacturers Institute

Powell, Goldstein, Frazer & Murphy Precision Machined Products Association

PricewaterhouseCoopers LLP

Prosper International Business Accelerator

Prudential Insurance Co. of America

R.A. Pearson Company

Ravensworth
Raytheon Company
Reale & Associates
Reebok International
Rem Evewear

Riverdale Mills Corporation Robbins & Myers, Inc.

Rockwell

Rockwell Automation Rockwell Collins

Rohm and Haas Company Rolls-Royce North America Inc.

S A M A Salt Institute

Samuels International Associates, Inc.

Sayer and Associates SBC Communications, Inc. Schering-Plough Corporation

Schmeltzer Aptaker & Shepard, P.C.

Sears, Roebuck and Company

Secondary Materials and Recycled Textiles Semiconductor Equipment and Materials

International

Service Tool & Die Company, Inc.

Shelby Industries, Inc.

Siemens

Small Business Exporters Association

Solutia Corp.

South Carolina Export Consortium

Springs Industries, Inc.

St. Maxens & Company - Mattel Steel Hector & Davis LLP

Steel Service Center Institute

StorageTek

Students for Trade Sun Microsystems, Inc Target; Spiegel Group

Telecommunications Industry Association

Texaco Inc.

Texas Association of Business & Chambers of

Commerce

Texas Instruments, Inc.

Texas International Trade Alliance

Textron Inc.

The Adhesive and Sealant Council

The Aluminum Association

The Boeing Company

The Bretton Woods Committee

The Business Roundtable The Chubb Corporation

The Daw Chamical Company

The Dow Chemical Company The Fratelli Group

The Gillette Company

The Goodyear Tire & Rubber Company

The McGraw-Hill Companies The Mid-America Committee

The Motion Picture Association of America

The Port Authority of NY & NJ
The Principal Financial Group
The Procter & Gamble Company
The Quaker Oats Company
The Purch and Proceedings

The Rushford Report The Wexler Group

Tooling and Manufacturing Association

Toy Industry Association TradeCom International, Inc. Trinity Industries Inc Plant 474

TRW Inc.

U.S. Chamber of Commerce

U.S. Council for International Business

U.S. Wheat Associates

U.S.-Mexico Chamber of Commerce

Unilever United States, Inc.

Union Pacific Resources Group, Inc.

Unisys Corporation United Parcel Service

United Technologies Corporation

Unocal Corporation UNOVA, Inc. US Assn of Importers of Textiles & Apparel
US-ASEAN Business Council
Venezuelan-American Chamber of Commerce
& Industry
Virginia Manufacturers Association
Wainwright Industries, Inc.
Warnaco Inc.
Waste Equipment Technology Association
WeberShandwick Worldwide
Westvaco Corporation

Weyerhaeuser Company
Wheat Export Trade Education Committee
Wilmer, Cutler & Pickering
Wisconsin Manufacturers & Commerce
Wood Machinery Manufacturers of America
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Growth. Opportunity. Leadership.

Engelhard, Joe

From:

Cononi, Rachel

Sent:

Monday, April 23, 2001 12:40 PM Engelhard, Joe Enron info

To: Subject:

Joe,

The transcript from the CATO policy forum on steel is attached. Enron info is on page 49.



CATO INSTITUTE

POLICY FORUM

WHAT'S WRONG WITH THE STEEL INDUSTRY -- AGAIN?

Tuesday, February 20, 2001

Moderator:

Dan Ikenson, Center for Trade Policy Studies,
Cato Institute

With:

Thomas Danjczek, Steel Manufacturers Association;

Charles Bradford, Steel Analyst; and

David Phelps, American Institute for International Steel

The Cato Institute

F.A. Hayek Auditorium

Washington, D.C.

PROCEEDINGS

MR. IKENSON: Welcome to the Cato Institute's F.A.

Hayek Auditorium. I'm Dan Ikenson. I'm an analyst with the

Center for Trade Policy Studies here at Cato. The mission of the

Center is to educate the public and policymakers about the

benefits of free trade and the cost of protectionism. Some of

the Center's efforts to date in advancing this mission are

documented in policy papers, op ed columns, interviews, and

excerpts located on our Web site at www.freetrade.org.

This event is being broadcast live, and a recording will be available for viewing and downloading later this afternoon from that site.

Brink Lindsey, the Center's Director, brought me on in October to coordinate the project on anti-dumping reform. The purpose of the project is to bring continuous attention to the economic irrationality, dubious administration, and unfair consequences of the anti-dumping laws. In the spring, we will release a policy paper on the proliferation of foreign anti-dumping orders against U.S. companies, which is currently a fairly under-appreciated side effect of the government's support for anti-dumping measures at home.

Several other studies highlighting the burden placed on various U.S. constituencies by the government's support of

anti-dumping will be forthcoming as part of that project. Of course, the largest abuser of the U.S. anti-dumping laws, the steel industry, may be spotlighted more than others.

While the focus of today's discussion is not anti-dumping specifically, we are here to address "What's Wrong with the Steel Industry -- Again?" Yes, this is deja vu all over again. In fact, just over two years ago, the Center for Trade Policy Studies hosted an event to discuss the steel "crisis" of 1998. At that time, much like today, the steel industry was trying to force quotas upon imported steel, badgering Americans into feeling false guilt and obligation in its Stand Up For Steel Campaign.

Then, as now, the cause for steel's woes was a combination of poor corporate decisions and macroeconomics. Then, as now, hundreds of firms in dozens of industries experienced falling profitability, layoffs, and even bankruptcies. Then, as now, workers in the steel-using industries, who outnumber steel workers by a margin of at least 40 to 1, will bear an enormous burden if steel's wish list of quotas, surcharges, and loan guarantees prevails.

And why should it prevail? There is nothing unique about steel's woes. Rather, it is its insistence on blaming foreign competition that is uniquely steel's approach, and its refusal to weed out and prune back inefficient capacity that has

this industry tumbling over backward whenever it faces even moderate financial head winds. What is puzzling is that steel's perspective still carries enough weight to pose a credible threat to the process of multilateral trade liberalization and the WTO itself.

The industry employs less than 200,000 workers in a 135-million-worker economy. The industry's collective market capitalization is smaller than many individual American companies in other industries. And it accounts for only \$30 billion of value added in a \$10 trillion economy. Yet, steel's problems are hyper-magnified through an elaborate, well-organized network of public relations and lobbying efforts. It's no wonder resources to address the real problems are scarce.

Now, more than ever, for reasons that transcend steel, it is time to see these issues resolved. The past 15 months, commencing with the meltdown in Seattle, have brought U.S. laws into question and leadership under stress. Certain features of the anti-dumping regulations, the Anti-dumping Act of 1916 itself, crucial aspects of Section 201, the CVD law's approach to privatization, and the Foreign Sales Corporation law have all been found to violate various WTO agreements. And the incendiary Byrd Amendment is currently under challenge. This session, Congress will have to bring these measures into compliance or renege on our obligations at the WTO.

Meanwhile, about 100 regional free trade agreements
have commenced since passage of the URAA, the Uruguay Round
Agreements Act, to which the U.S. is a party in exactly zero. As
multilateral negotiations have stalled, other nations have moved
forward to continue realizing the benefits of liberalized trade.
It appears certain that USTR will have to agree to at least put
anti-dumping on the table if a new round is to be launched later
this year in Qatar.

The steel industry, which has virtually no stake in foreign markets, will be lobbying to ignore our obligations and oppose a new round at enormous expense to the majority of Americans who benefit from free and open markets here and abroad. Because the process of multilateral trade liberalization hangs in the balance, steel's problems are our problems, so we struggle together in search of ideas.

Here to discuss the problems and potential solutions is a highly regarded panel of experts. David Phelps is President of the American Institute for International Steel; Tom Danjczek is president of the Steel Manufacturers Association; and Charles Bradford is a Wall Street steel analyst, whose reports are widely circulated and valued in the industry. Each of the panelists will be allotted approximately 15 minutes to make his presentation. After each has spoken, there will be an opportunity for panelists to rebut, refute, elaborate upon, or

challenge any points made by other panelists. After that, the panelists will take questions from the audience.

Our first speaker today is David Phelps, President of the American Institute for International Steel. Phelps joined the AIIS in 1996, and is responsible for helping AIIS fulfill its mission to support free trade and economic growth through competition in the steel trade, and to oppose protectionist barriers to trade, including tariffs, non-tariff barriers, and subsidies.

Prior to joining AIIS, Mr. Phelps worked as a Customs and steel products consultant. He was also an officer at the American Iron and Steel Institute, where he was employed for nearly 15 years. Mr. Phelps holds an M.A. in economics from Virginia Tech and a B.S. in economics from George Mason University. Please join me in welcoming Mr. Phelps.

(Applause.)

DAVID PHELPS,

AMERICAN INSTITUTE FOR INTERNATIONAL STEEL

MR. PHELPS: Good morning. I am pleased to be able to address the Cato Institute and guests on this rather vexing problem.

The announcement for the forum today says, "For the second time in less than three years, the U.S. steel industry is in crisis mode." This would make it seem that the domestic steel industry has had a couple of tough years, and that somehow the sequence of events is an unusual occurrence that requires and deserves special attention by the government.

Well, as I'm sure everybody here must know, it's not an unusual occurrence for the steel industry to be in crisis. But this time the crisis is serious. The number of bankruptcies makes it different. Why? We believe that the chickens have come home to roost. Thirty years of living in a protected market have given us a classic example of why protection does not create competitive industries. We believe that there is a role for the government to play, fashioning a market-based incentive program that would encourage the consolidation of some companies and facilities and the shutting down of non-economic capacity.

It seems to many observers that the history of the steel industry is one of lurching from crisis to crisis. Each time the steel markets soften, the domestic industry has successfully persuaded presidents that they need protection to survive. The problem was always imports, and the solution was protection.

We have a different view, outlined in a book we sponsored in June 2000, "Paying the Price for Big Steel: \$100

Billion in Trade Restraints and Corporate Welfare". This book outlined the history of steel trade policy, how the domestic industry has skewed investment, competition and risk at crucial points in the last half of the 20th century, and instead chose the siren song of protection.

Not only has the industry received various forms of protection since the last 1960's, there have also been direct and indirect subsidies at the Federal, State and local levels.

According to our study, the value of this special treatment was from between \$90 billion and \$151 billion. Who pays for the protection? Steel consumers, who employ over 40 times more people than the steel industry itself. From the perspective of trade and economic policy, this is a clear case of the tail wagging the dog.

Our study has been criticized on the basis that it was written "by lawyers representing the Japanese steel industry."

Let me read to you the five-and-a-half-year-old quotation:

"Our larger integrated steel producers spend millions in lobbying Congress for protection. In addition, steel company political action committees and the Steel Workers Union contribute more than \$700,000 a year to favored congressmen.

Justifiably, they expect this to provide the best protection money can buy." That was Kenneth Iverson, then chairman of Nucor

Steel. I don't think he was representing the Japanese industry at that time.

So, what's wrong with the steel industry -- again? How did we get to this, the 2001 chapter of the steel trade saga? First of all, there are some underlying causes affecting not only steel but all of manufacturing: the strong dollar, the explosion of energy prices last year, and the softening of demand in some sectors.

However, for steel, the short answer is price increases. Demand was strong and lead times were increasing at the end of 1999, the beginning of 2000. The domestic industry announced a series of price increases during this period, with the last one scheduled for July 1st, 2000. The specter of increasing prices created a buying frenzy by customers. In fact, exactly one year ago today, domestic mills were heavily booked, with long lead times, and many customers were on allocation.

Consumers tried to avoid price increases by stepping up buying of both domestic and imported material. By the time summer came, it was clear that the bloom was off the rose.

Inventories were way too high and prices began to tumble. After the market began to soften, imports ordered earlier when the market was strong continued to arrive.

Unfortunately, these imports added more pressure to the market. Panic selling at any price by weakened producers who

were trying desperately to stave off bankruptcy added significantly to the pressure on prices, as did the new mini-mill capacity that came on line last year at this particularly disadvantageous time. By the end of the year, inventory levels were high, bankruptcies were making the headlines, including the fourth largest company, LTV.

As usual, the domestic industry refrain focused on imports. And now, in addition to the perennial demands for more and more liberal trade laws, in some quarters there is a renewed call for yet another round of quota protection and subsidies.

Well, after nine years of dumping cases, what have we learned? The same lesson as always: protection does not create a competitive industry. The steel industry stands out as the clearest example of the folly of protectionism.

We have heard steel companies argue that their foreign competition is unfair, illegal, and now I've even heard import competition described as criminal. Of course, it is also argued that if only the industry's foreign competitors would trade fairly, there would be no problem. There are two problems with this argument.

First, the domestic industry can only meet 75 percent of steel demand in the United States; and, second, there's not one foreign steel producer of any consequence left in the entire world that has not been sued for illegally dumping in the United

States. Yes, even our Canadian and Mexican NAFTA partners. Of course, the industry itself is the largest importer of foreign steel products, doing what steel customers are condemned for: getting the best price as possible.

Finally, it is interesting to note that at current price levels, the vast majority of steel exported by the domestic industry is below total costs. In other words, U.S. steel producers are dumping.

It should now be clear to everyone that, simply put, some steel companies' survival has been due solely to protection. The large number of bankruptcies in this downturn underscores the truth of that statement. Several adverse circumstances mentioned above, along with the downturn in prices in the second half of 2000, triggered a march to bankruptcy -- companies that were so weak that they couldn't survive this downturn that occurred during a period of strong demand. And if the market doesn't turn, and turn quickly, we believe that there will be even still more Chapter 11 bankruptcy announcements.

Somehow it's difficult to argue that the problems are all the fault of imports. Consider two companies, LTV and U.S. Steel. They have the same union, the same iron ore, the same coal, the same limestone, essentially the same products for similar customer lists. There is much longer list than even that. And LTV came out of bankruptcy in the early 1990's

essentially debt free. Yet, one had a good year for profits in 2000, at least on an operating basis, even with a poor fourth quarter; and the other one is in Chapter 11, again.

Under the circumstances, how can it be argued that imports are the determining factor and even more protection is needed?

Is this the entire story? No. It's clear that some companies don't want or need special treatment. They have used the time under protection to become internationally competitive.

Look at AK Steel. It was one of the weakest companies in the 1980's and now it's the strongest. Just two weeks ago, AK blasted a plan by the State of Ohio to funnel over a \$100 million to the weak steel companies of that State. On the other side, some complain that it was not enough money.

We believe that had we lived in a free and open market over the last 30 years, there would have been an orderly exit of steel companies who lost their ability to compete. Arguably, other producers would have acquired the good parts of those companies. Thirty years of protection have delayed the day of reckoning for now. For some, it has now come, or come again.

The new Bush administration has inherited this difficult situation. As discussed above, the desperate actions of the weak companies played a significant in creating the current weak steel market, and they also played a role in

depressing the share values of virtually all steel-producing companies -- some to absurd levels.

It is clearly not in the interest of the strong companies' customers or the workers to repeat the mistakes of the past and, through protection and subsidies, prop up the weak U.S. producers for yet one more business cycle. We believe that doing that for the weak players in the market will only result in continued price suppression as they strive for cash flow. The strong will be hurt.

So, with all this history as background, what should the government do? If not protection, then what?

We believe that it is important for the government to play a role in cleaning up this mess. It was, after all, the government's support, via protection, that put us on the course that brought us here. However, any actions taken by the government to alleviate the situation should have as their primary goal encouraging the restructuring and consolidation of the industry using market incentives. Tax incentives, such as accelerated depreciation, similar to the systems of most of the U.S. industries' foreign competitors, should be considered as one element of the solution. Such proposals would help make the stronger companies stronger, improving their ability to participate in the restructuring.

Another idea put forward by the SMA, involving legacy costs, also deserves serious consideration. At no time should the government even consider any action that is contrary to our WTO obligations. The Bush administration will have enough trouble cleaning up the mess created by the steel industry protectionists before launching a new round of trade negotiations; we do not need to make that job any more difficult.

In the end, what we do know for sure is that trade protection has not worked in the past, and it will not work again if we try it. Steel customers and suppliers have to compete in the rough-and-tumble world of international competition, and international competition has forced some out of business.

Remember the U.S.-based ferroalloy industry, or even the equipment supplier, Mesta. It is time for the domestic steel industry to compete on the same basis as their suppliers and customers.

Finally, we at AIIS have as our basic trade policy opposition to trade barriers and trade-distorting practices, including subsidies. We know that many in the domestic industry believe that there are both trade-distorting practices in a non-economic capacity overseas. To the extent that these allegations are true, such practices distort free trade and hurt U.S. producers.

We would support international efforts, perhaps in line with the failed multilateral steel agreement originally suggested by President Bush, Sr., that would have as its goal elimination of subsidies and true free trade. We encourage President Bush to take decisive steps to solve this, the most vexing trade and industrial problem facing his administration.

Thank you for your time and attention.

(Applause.)

MR. IKENSON: Thank you, Dave, for that often smothered perspective on trade.

Our next speaker is Thomas Danjczek. Mr. Danjczek
joined the Steel Manufacturers Association as President in
February of 1998. The SMA consists of 53 North American
companies that operate 128 steel plants and employ approximately
70,000 people. The SMA is the primary trade association for the
scrap-based electric arc furnace steel makers, i.e., the
mini-mills, representing approximately half of the steel produced
in the United States. The SMA has 147 associate members that
supply goods and services to the steel industry.

Prior to the SMA, Mr. Danjczek was an executive with Wheeling-Pittsburgh Steel Corporation, which he joined as General Superintendent of steel making in 1983. From 1970 to 1983, he was a supervisor with Bethlehem Steel Corporation and Kaiser Steel Corporation.

Tom earned his bachelor's degree in mechanical engineering at Villanova University and a master's degree in industrial management at Perdue University.

Please join me in welcoming the current President of the Steel Manufacturer's Association here in Washington, Mr. Thomas Danjczek.

(Applause.)

THOMAS DANJCZEK, PRESIDENT, STEEL MANUFACTURERS ASSOCIATION

MR. DANJCZEK: Thank you, Dan, very much.

I would like to thank Dan and Brink Lindsey for inviting us today. When he was kind enough to call for the invitation, I asked if I should bring my own rope to hang myself with. And his reply was, "Bring a wire rope." So, there was a little humor there.

(Laughter.)

MR. DANJCZEK: But we are pleased to be here today. We changed our title a little bit, from "What's Wrong with the Steel Industry," and I don't know if you can see that or not -- it's awfully bright. Briefly, what I'd like to do today is tell you who I represent, talk for a moment about the impact of the trade situation to our segment of the industry, discuss a few

recommendations, and conclude with some long-term and some short-term actions.

First, let me tell you who I represent and the group that I'm with. The Steel Manufacturers Association represents 53 North American companies, in Canada, the U.S., and in Mexico. We have 146 associate members. We operate 125 plants. We employ about 120,000 people. We represent mini-mills, and mini-mills are electric arc furnace scrap-based producers, with continuous casters.

Today we represent approximately half of U.S. steel made. And to put that in context for a moment, last year our industry domestically made about 109 million short tons. We made 47 percent of that, or approximately, I think, about 48 million tons, something in that magnitude, or 50 million. And last year we imported about 35-37 million tons. So, it gives you an idea of our size.

We're very proud of our contribution to recycling. We are the largest recycler in the U.S., and last year we recycled over 70 million tons of steel.

Our members continue to grow due to their efficiency and quality, due to very flexible organizations, and we're expected to surpass 50 percent of the industry this year. And there are projections out there by people smarter than I am who say that it we'll hit 60 percent by 2010.

This slide isn't for the details but just to show you the context of the lay of the land of where we are in our industry. Our domestic shipments are about 110 million tons. And you can see that since 1990, domestically, we've exceeded per capita consumption. And we were low, 80 million tons back in the early nineties, and that has had about a 20-percent increase to today in domestic shipments. You can see that imports have grown from the 20-million-ton class to approximately 35 to 40 million tons. And so that change of market share of imports has grown from about 20 percent to approximately 30 percent. And that's just done to give you a tone of the magnitude of the numbers we're talking about.

This is a quote by Alan Greenspan. It's the one thought that I do want to get across to you today. Dan's comments would put us all under one tent as a steel industry. I would offer to you that it is not one steel industry. I would read this quote: "As you know, we really have two steel industries in this country. One is based on older technologies, and the other is the mini-mills, which are evolving at a very dramatic pace." And somebody named Alan Greenspan said that about a year ago.

It's difficult to tell you what's going on in trade in one slide, but I'm going to try. The core problem, like an albatross hanging around our neck, is that, in a word, except for

North America, there's too much world steel-making capacity to serve too little world steel demand. That problem occurs not only in somebody else's backyard; it occurs in our backyard also.

The magnitude of that problem is that we as a world, and I talk now in metric tons, ship about 750 to 800 million tons. Approximately 200 to 300 million tons, or a magnitude of 25 percent by some, is viewed as excess capacity. The effect of that, even for the efficient mini-mills, is that it limits our ability to promote shareholder value, to maintain production facilities, and to provide adequate supplies of steel.

We went through a lot of bumps in the last three years.

And the solution is here. And there will be disagreement on our panel. And Mr. Bradford and I and Mr. Phelps and I have had many interesting conversations. We are going to show some actions that we think need to be done in terms of prompt, coordinated, comprehensive, and equitable.

Before I do that, let me take you through, I think, six trade principles. Some of them will agree with the principles of the Cato Institute, some might disagree.

But, first and foremost, markets involved in fair trade -- not the government -- must determine, in the steel industry, the winners and losers. But the salient words on that first statement is markets involved in "fair trade." And that's

where there will be some disagreements: in the definition of what is "fair trade."

Second, and very important to us -- but not agreed to by the entire steel industry but agreed to by the members of the Steel Manufacturers Association -- government assistance to troubled steel companies for continued operations or legacy costs is unacceptable. That assistance is unfair to those steel companies who are not troubled. Government funding to aid displaced workers from closed facilities, for retraining and relocation is encouraged. No bailouts. It's not fair. It's just blatantly not fair.

Third, the government should prevent the provision of loan or grant fundings from any U.S. agency or international financial institution in which it participates for maintenance or expansion of foreign steel-making capacities and also oppose availability of such funds from other governments through their financial institutions. Building new mills when we already have 25 percent capacity doesn't make a lot of sense to us.

Three more. Trade relief accorded to the steel industry should be nondiscriminatory and industry-wide, with the exception of the relief provided under unfair trade cases. We don't think that we're special, to use my children's expression. We're part of an overall manufacturing base.

Fifth, American mills must remain as free as possible, consistent with standards of fair competition, to consolidate, specialize, rationalize, restructure, merge, acquire, or be acquired. This is a statement somewhat opposed to what the steel workers came out with recently, where they wanted to limit foreign ownership.

Sixth, and finally, to achieve a truly level playing field, it is essential that trade measures be consistent with the multilateral trade agreements that the U.S. is a party to. While I have certain members who would love to say to hell with the WTO, it's not going to get us anywhere. It's not going to get us anywhere with this administration, and we're going to have to play by the rules.

I'm going to talk of three short-term actions and a couple of longer-term actions following that. We do believe that import relief that returns to pre-crisis levels should be accomplished as soon as possible and remain in place for a sufficient number of years to permit the steel industry to adjust to serious injury sustained from imports of the three years, 1998 to 2000.

I do not expect my two co-panelists to agree with that.

They might agree that the U.S. steel industry in 1998 got hit with 11 million tons of imports in a five-month period that absolutely cut the legs out of our market. The administration

should designate a senior White House official to coordinate the work of USTR -- who I see in the audience here -- and executive branches to achieve prompt, significant, and lasting relief for steel imports. It does need, as Mr. Phelps suggested, a more comprehensive solution.

Third, the administration should implement a transparent system of automatic import licensing modeled after the Canadian system that they've used in Canada for several years. This is WTO-acceptable.

Three, longer-term actions. We do believe, under whatever words you all choose to use, whether it be multilateral steel agreement or whatever the terminology is, with that excess capacity I've referred to previously being a core problem, not the sole problem, the administration should undertake concerted efforts to negotiate international steel agreements, whose principle objective is to eliminate or at least substantially reduce the uneconomic or excess capacity overhanging domestic demand in countries outside of North America, which, as I said, is the root cause of the predatory imports flooding the American market.

Second, the administration should ensure that it coordinates the steel adjustment program with NAFTA trading partners, to choose the greatest possible equity of conditions within this NAFTA region.

And the final point is what Mr. Phelps I believe touched on a little bit, and that is another possibility is to alter business tax policy. That could take place in several areas. A change in depreciation schedules would foster obsolescence, and to initiate a border adjustable tax just makes good sense. But the reason it's on the long-term actions is that we do not believe those things are going to occur very quickly, but it makes sense for us as a country to do it.

Let me conclude with three thoughts. First, mini-mill competitiveness is only a partial solution. Why? I stand before you today and tell you that some of the mills that I am employed by are some of the most efficient mills in the country.

Scrap-based electricity, man-hours less than one man-hour per ton, et cetera, close to their markets. That by itself, in view of the trade impact we've gone through the last three years, doesn't solve the problem.

Even Nucor, who Dave quoted earlier -- Mr. Iverson, the chairman -- has recently gone through significant trade changes. And I found it interesting to look and to try to evaluate why they went from an organization that said no trade actions, never, to a group that filed recently two cases -- one on rebar and previously on heavy structural -- and their basic thought was that things have changed. That it's a logical progression that if they did not go after those markets relative to the use of the

trade laws, they would not be exercising their fiduciary responsibility to the shareholders.

To quote Paul Wilhelm from U.S. Steel, dumping like smuggling is illegal, and if it's illegal you have the right to go after it. If it's wrong, you have the right to go after it. You may not like it, but it's certainly within our prerogative to do so, and it is legal to so do.

I find it somewhat amazing the criticism of the number of trade cases that are filed when I see even a higher number being filed in Europe. We are the only place in the world that steel comes. Our doors are open.

Second point: Survival of an economically efficient competitive steel industry to supply the majority of its domestic steel requirements is of national interest. I am obviously am a little prejudiced because that's who I'm paid by, but I would offer to you that we need a competitive steel industry. That 70 million tons I talked about that is recyclable, you don't want that in your landfills. It makes good economic sense to recycle that material, both from an energy point of view and from a recycling point of view.

I would offer that a vibrant, competitive steel industry, not a subsidized steel industry, is a core component of our manufacturing base. I would offer that domestic supply -- and there are several customers I know who are in the audience

today and I would love to hear them comment on the fluctuations that occurred in their markets -- that you need both imports and domestic supply.

And the final point I'd like to make, which if you want to look through what we're doing and what is our motivation, it's really summed up in this last point. We need to ensure access of domestic steel producers to private debt and equity markets to maintain this sector. We're not terribly important on Wall Street. I think you're going to hear Mr. Bradford commenting on that. We need a competitive industry to be able to continue to support the businesses that we're in.

Thank you very much.

(Applause.)

MR. IKENSON: Thank you, Tom. I didn't mean to blur the distinction between the integrated mills and the mini-mills. There are clearly some differences and, judging from the SMA proposal, certainly some similarities.

Our next speaker is Charles Bradford. He is the President of Bradford Research. Chuck has been a metals analyst for more than 30 years, and most recently he was the senior steel analyst at Smith Barney, and prior to that with UBS Securities. He has been the senior metals analyst with Merrill Lynch for 14 years.

Besides being President of Bradford Research, Inc., an international consulting firm, he is Chairman of Steelswap.com, and Internet startup, focused upon logistical cost savings for steel service centers.

Chuck has been placed on Institutional Investor

Magazine's All American Research Team 26 times. In 1996 he was

ranked as the number one metals analysts for stock picking by the

Wall Street Journal. On six separate occasions, he was ranked as

the number one steel analyst on Wall Street.

He has also represented the United States at various U.N. metals conferences, and has been an advisor to various companies, both domestic and foreign, and U.S. government agencies, including the Office of Technology Assessment and the Pension Benefit Guarantee Corporation. Chuck was the President of the Steel Analysts Group in New York for the 1998-1999 year.

He has an MBA in finance from the Wharton Graduate
Division of the University of Pennsylvania, and a B.S. degree
from the University of North Carolina.

Please join me in welcoming the current President of Bradford Research in New York, Mr. Charles Bradford.

(Applause.)

CHARLES BRADFORD.

STEEL ANALYST

MR. BRADFORD: Good morning. You all have copies of my presentation, so I am not going to read it to you. If you don't have a copy, it's outside on one of the tables. I figure you can read as well as I can. I do have a number of slides and a number of points that I would like to make, and, basically, let's get started.

As Dan said, I've been an analyst, covering the steel industry, for 36 years. I can't remember any time during that period, beginning in 1965, when the steel industry hasn't sought protection from imports. Every time they've been weaker after protection than before.

Well, what is the story? Clearly, a lot of companies are in financial trouble -- again. In reality, some never got out of trouble. There are lots of reasons for the problems. I think the strong dollar is maybe as critical as any. Government subsidies generally at the State and local level have been very harmful. Managements and unions have also been a contributor.

But let's talk about some of the fallacies. First of all, one of the comments you'll hear very often about the steel industry is that we have the lowest costs in the world. Patently not true. There are some low-cost producers here, such as

members of Tom's mini-mill industry, but there are an awful lot of very high-cost producers. If you were to look at a cost curve -- one of our competitors publishes it quite often; other people publish cost curves -- you'll see that U.S. integrated producers among the highest costs in the world. Now, some of that is because of the dollar. But it is fact, they are high cost.

Secondly, a lot of the mill people, a lot of the union people, claim they have the highest qualities in the world. Also patently wrong. Now, it varies a lot by grade of product, and most of the product in the U.S. is perfectly acceptable. But to say that we've got the highest quality is just not factually accurate. In fact, the U.S. mills have gotten a lot of aid from foreign producers to improve quality.

If I were to rank quality today, I'd say Japan is number one; Usinor, of France, is number two; Dofasco, in Canada, is number three; and number four would be AK Steel, of the U.S. But that is in particular products called coated steel, which happen to be one of the better value-added products.

Military use, that's another big one. I mean, we've had senators get up before Congress, especially on the Don Evans hearings, on his appointment, and talk about how steel is so important for the military defense of the United States.

According to the American Iron and Steel Institute, the segment called ordnance and military accounted for 0.0 percent of the

market last year -- 0.0 -- all of 28,355 tons, against an industry that shipped 109.6 million tons domestically. And that's not counting imports. If you added imports, it would be less than 0.0 percent -- if that's possible.

The last fallacy that I'd like to hit upon is that imports are the cause of the problem. I think they're a symptom; they are not the cause. A lot of situations that the mills caused themselves encouraged imports last year. They ran up spot prices very rapidly, beginning in late 1999. Their customers, a lot of whom are service centers or warehouses, hedged to beat the price increases. They double-ordered steel from domestic mills. Domestic mills aren't stupid. They saw some double-ordering and they cut back on sales to certain of their customers or new customers.

What did those people do? They bought foreign steel. The problem is it takes five to six months for the foreign steel to come. So, what happens? The market turns weaker in the U.S. because of the excess inventories in place; at the same time, the foreign steel keeps coming. No matter what the administration does today, or Congress does today, we're going to see lower imports. It's already preordained, because orders fell beginning in May. Add five months, six months, later to that and you see lower imports. This is a natural event. It is not the catastrophe people make it out to be.

Let's talk about what the industry really is, because there really are three steel industries. Mr. Danjczek's industry, the mini-mills, melt scrap. They melt scrap. More than half their cost at times is the cost of scrap. The beauty of scrap is that the price goes down in an economic downturn. So their costs are variable. In a downturn like we have had -- and the steel industry has had quite a downturn since last May -- the cost of scrap has fallen. Therefore, mini-mill costs go down.

The integrated steel companies, by contrast, have very, very high fixed costs. If they lose any volume, their cost per ton soars. So, they are in a situation where, in a downturn when prices fall, their costs go up. I can't think of a worse situation to have. With mini-mills, when their prices fall, their costs fall. There may be a bit of a margin squeeze, but they don't get destroyed.

Then the third segment of the industry are the specialty steel companies, who usually get sacrificed whenever there are import quotas or other import relief because of the way these programs tend to work. These are the better growth companies. It really should be called the nickel or chrome industry. Steel is the wrong word for it, because the nickel and chrome determines the value of the product. But there are three separate industries that are called steel.

Now, let's talk about the problem. We would say that
the overall problem, sort of on a macro basis, is maybe 60 to 70
percent caused by the government and maybe the rest is split
evenly between the managements and the unions. I should point
out that there is an interesting correlation. Now, this
correlation -- and I'm being kind of facetious a bit -- but it
really works. Of all the steel companies that have failed, with
one sort of exception that really never got started, they've all
have United Steel Workers of America representing the membership,
or the employees.

There's actually a much higher correlation between USWA membership at failed steel companies than there is between lung cancer and tobacco smoke. Now, it doesn't mean you get rid of the steel workers union and you save the industry. That just happens to be an interesting correlation. There's also one that says 98 percent of all children eat bread and half of them will be below average.

(Laughter.)

MR. BRADFORD: Anyway, we can play with numbers a lot.

A lot of people play with numbers. One of the problems in the steel industry is you've got to be really careful in the numbers you use. There are a lot of bad numbers out there.

But the strength of the dollar, I think, is the biggest problem. Excess capacity, frankly, I don't think it's as bad as

people say it is; it does exist, however. Let me give an example. The official Japanese capacity figure is 145 million tons. Last year they did 106. They couldn't have done 110 if they had wanted to. The problem is the definition of capacity. They used the biggest piece of equipment in the mill. They can never, ever achieve that. We use, in this country, a much better definition, which is the bottleneck, what you really supposedly can produce. So, some of the excess capacity doesn't exist.

Okay, let's go on to State and local subsidies. I've given you a couple of examples in my talk about products that are a problem, where the State has subsidized reopening of old mills, built new mills, and, of course, imports are blamed.

Permit delays I think is something the government can do something about. Steel Dynamics, one of Tom's member companies, has been delayed two years in building a new mill by delays in permits. I'm not saying change the environmental laws, just speed up the processing of the permits. Every year that's 15 percent added to costs. That's a huge amount of money.

I said management has made a lot of mistakes getting into the wrong products. A good example is rail. There are three companies today that want to build new rail mills in the U.S., when the two existing producers are running at 50 percent of capacity. And each one of the three new ones would have

enough capacity to meet 100 percent of the market. Now, this doesn't make any sense, but they'll blame imports.

And then, as I said, inaccurate data. One of the best examples last week was a silver company that closed its mine in Idaho. What did they do? They blamed imports. I mean, it's a commodity.

Let's talk about a few of the other issues that I think are important. For example, there are steel companies that make money in the U.S. Okay, let me do "Solutions" first. This is a list of them. They're in your handout. You can see them as well as I can.

Okay, what can the industry do? Consolidate.

Consolidate. Consolidate. Reduce costs. Consolidate.

Consolidate.

I want to get to a slide that shows comparative costs. This shows you that there are some companies that make money. Look at the ones that are above the line. You can see that. Clearly there are differences within companies. They're all selling to the same market at the same price with the same imports. Imports aren't the problem; they're just a symptom of the problem.

Let's talk a bit about why other situations, quotas, and all won't work, or 201 cases at the same time of quotas won't work. They'll shelter the industry. They'll keep the

inefficient around. They won't let normal economics cull the bad acts.

And then let me end up, since I'm about of time, with a quote from a former Secretary of Commerce, Philip Klutznik, who I believe was back in the Carter administration. His solution for the steel industry -- and this is a very rough quotation -- was to use a bull dozer, flatten the industry, start over again, and build it correctly.

Now, that's part of the problem. We've got a lot of issues here to raise. We've got a lot of funny numbers. Last year volume was good. Actual spot prices were up. Why did the industry do so badly? Costs were up and the big customers took their strength out on the relatively weaker steel companies. That's why consolidation is important.

And with that, let me close.

(Applause.)

MR. IKENSON: Thank you, Chuck. Thanks very much.

Each of the speakers left some materials out, and I hope that everybody was able to collect them. I know Chuck may not have been able to get to everything that he had intended to say, which may be the case with the other speakers as well, but I want to give the panelists an opportunity to address one another. A lot of information was presented here, and I was curious as to whether anybody has a question for another panelist.

MR. PHELPS: I'll start. Tom, there's absolutely no question that there is -- and I prefer the term "non-economic capacity" as opposed to "excess" -- there is non-economic capacity in the world. Would you acknowledge that that also was a problem in the U.S.?

And as sort of a second part of that, to kick off a discussion, our concern with a 201, particularly if it's a 201 layered over the existing dumping orders, is that you're really putting in place a system that's going to keep alive the very non-economic mills that need to go by the wayside.

MR. DANJCZEK: On your first point, if I may, David, in terms of excess capacity occurring in the U.S., I heard a quote that I'll steal from somebody else who said that "It's not that we're overbuilt, it's that we're under demolished." And so there may be some truth to that.

I would offer that in the segment of the industry I represent, just in the last six weeks or so, there were two significant announcements of capacity going out. All-Steel, Lamont, said they're closing their doors, and GS Industries, who just went into Chapter 11, announced the shutdown of their Kansas City facility. So, that excess or non-economic capacity can happen not just around the world; the U.S. has some also, integrated and mini.

Your second question was what?

MR. PHELPS: One of the concerns we have is that among the solutions being kicked around is that a quota scheme under the 201 statute, which at least has some arguable benefit of being WTO-consistent, would layer another scheme of protection over this market and would do nothing more than give a lifeline to some of these companies that we truly need to see get out of the market.

MR. DANJCZEK: Among my membership there is a very mixed advocacy of a 201. I had 12 of my members go through a 201 a year ago this time when I arrived. And the remedy they received, due to the politicalness of the process, was like kissing your sister. Imports today of wire rod are higher then they were a year ago. However, the 201, as you all know better than I do -- I know there are a lot of trade lawyers out there and I'm not -- the 201 is not just against unfair or dumped steel, but it's against the surge. And I suspect that we could show that surge. I think it's a question of how well we can show that injury or not. So, I think time will tell there, David, but the reason it's advocated is because of its WTO consistency.

MR. PHELPS: And your organization does therefore advocate adding the 201 to existing dumping orders that are in place now? Or you haven't addressed it?

MR. DANJCZEK: We have addressed it. And I think, because of the politicalness of the 201 process, we will have to

determine the degree of support both from this administration, which is unknown, and from the congressional pressures. We view it as a viable option and do not want to take it away, but no case has been filed yet.

MR. BRADFORD: I'd like to add just one comment. It has been my experience, especially in quotas that have been put into place in the past, that you get usually unintended consequences, and usually you end up doing more harm than you saw.

For example, there were quotas, I guess in the early sixties, after a surge of imports following a 115-day strike in the U.S., that caused the stainless steel companies to almost go belly up because quotas were put in tons not in value. And what is someone going to do when they import product? They're going to import the higher-value tons. So, you end up losing your most profitable market. That's what happened. I think that will happen again.

Even in quotas that have become more sophisticated in subsequent times, where they have defined different product categories, there are still products within categories that have various and substantial differences in value and in profitability. You'll give the importer the high-profit products, and the domestic mills will be left with the low-profit products -- a very, very bad error.

MR. DANJCZEK: May I ask a question, please?

MR. IKENSON: Please.

MR. DANJCZEK: I'd like to ask either Dave or Chuck whether either thinks we need a domestic competitive steel industry.

MR. PHELPS: I'd be happy to answer that. Most of my members believe -- and I think you'd be hard pressed to argue to the contrary -- that without an efficient, competitive industry, our customer base would be strangled. We simply can't rely on imports to supply the majority of the market. Members who are involved in trading have different numbers that they think would be the ceiling for imports -- 30-30 percent.

Whatever that number is, there is clearly a point at which the domestic consuming sector relying on imports would be rendered less competitive. That said, the alternative is also true. We simply can't manufacture sufficient quantities or varieties or qualities of different kinds of steel. We need to import. Imports do two things. One, obviously they fill the void; and, two, they give the domestic consumer of steel leverage on his domestic suppliers. And I don't think too many people in business like to be without leverage when they're buying anything.

MR. BRADFORD: Well, the way you worded your question, you sort of loaded it a bit by talking about a competitive

industry. And of course a competitive industry is fine. I mean,
I think we all encourage it. I know we will do better
financially. The problem is, do we have a competitive industry?

I think a point was made that your group represents half of the steel shipped in the U.S., but you only have a third the number of employees. Now, that should tell you something right there. The other half has two-thirds of the employees.

Let me give you a couple of numbers.

Bethlehem Steel's employment cost as a percent of sales -- and you have to be a little careful with just man-hours per ton because there are some companies that make a very simple product and have very low man-hours versus other companies that make a much more sophisticated product and have much higher man-hours -- so, employment cost as a percent of sales is a reasonable measure. Bethlehem Steel and LTV have over 30 percent employment cost as a percent of sales. Nucor is 10 percent. There is a huge difference.

POSCO in South Korea has maybe 20 percent more people than LTV does but three times the output. That is within the same product category or the same integrated steel process. That tells you the whole story. The U.S. mills, the integrated mills, are not terribly competitive. Now, I happen to think this is a good time for them to have to become competitive. Because the people who would be let go -- and maybe it's 20 or 25 percent of

the work force -- actually happens to correspond very well to the number of steel workers, union members, who are already eligible for retirement. Roughly 20-25, maybe as many as 30 percent, of the existing work force is eligible for retirement today.

The other reason why it's a good time is the low unemployment figure. You're not putting people out on bread lines. There are jobs out there. I might not say the same thing if we were at 6 percent unemployment.

MR. DANJCZEK: If I may, I would like to make one point back on David's question on the 201, which I failed to do. And that is, David, that 201 is viewed by my organization as a stopgap measure until some longer-range solutions can be done. That's why it's on our short-range hit list or work list, because certainly long-range there are some international problems that need to be resolved.

MR. BRADFORD: I would suggest that quotas and some of these programs are not likely to be looked upon very favorably on Wall Street. Clearly, I can't talk for all Wall Street firms, but I know all the analysts on Wall Street, and we all recognize that you're looking at a long-term issue. And any program that has a short-term duration, you have to anticipate what will happen at the end. And it generally does not look very good.

MR. DANJCZEK: Chuck, you mean it can get worse?

MR. BRADFORD: Oh, yes.

MR. IKENSON: This is a very intelligent, enlightened conversation, and I think at this time we would like to perhaps try to get the audience involved. If there are any questions out there, if anyone has a question, please raise his or her hand, and a man or a woman will come over with a microphone. And before presenting your question, please state your name and affiliation. And please limit it to one question.

MR. BORE: I'm Christian Bore, with American Metal Market.

Given the Bush administration's unknowns concerning steel policy and the recent edicts that are coming out of OMB that so-called corporate welfare should be, at the very least, a low priority and at the worst, completely cut from budgetary matters, and also the fact that the Bush administration seems to be willing to support any type of corporate tax breaks, can you in any way address where you think this may go? It varies on both sides, in terms of their support for this issue.

MR. DANJCZEK: I'd be happy to address it, if that's all right.

I think there are probably three columns, Christian. I
think there's a column that we can probably project is going to
happen. There's probably a column that we could project is not
going to happen. And then there are some unknowns. To think
that this current administration is going to do something about

bailouts and grow subsidies is pretty highly unlikely. On the one side, I would say no. On the other side, it is likely, I think, in view of what Mr. Zoellick and others have said, that some degree of international negotiations and dialog, in terms of his background, is certainly going to take place.

So, now, somewhere between the two, I do not know personally where this administration stands on the 201, and I am not ready to put that in either column yet, because I just don't know. We're waiting for some lieutenants to be named and we're waiting for a dialog to be established.

MR. PHELPS: It's hard to come to much of a different conclusion, but I think there's one fairly significant items and it needs to be added to the mix here. And that is the ambitions of the Bush administration on trade, both hemispheric and at the WTO. President Bush made it very, very clear during the campaign that these were very important items for his tenure in the White House.

It is also very clear that right now the biggest problem facing a successful addressing of those challenges is, in fact, steel industry protectionism. And not just because of the problems in the United States, but particularly because of the problems at the WTO, whether it's the 1916 dumping act, the CVD, the 201 injury issue, the Japanese hot-rolled margin case. I

mean, the list is very, very long at the WTO of complaints against the United States.

It's absolutely clear to anyone who looks at it with

even a reasonably unbiased -- and I confess I don't have that -
but even a reasonably unbiased eye that we have a serious problem

primarily caused by abusive trade laws in the United States. It

needs to be addressed before our trading partners are really

going to feel free to give the U.S. back sort of the leadership

mantle at the WTO. I think that became very clear in Seattle,

and I think it has to be addressed.

Then the conclusion is that something is going to have to be done to get the steel industry out of the way. And I think that percentage is very difficult to come up with, but it argues for some kind of what we hope is a market-based package that provides incentives to the industry as opposed to bailouts and relief.

MR. DANJCZEK: I personally think that there are a lot of things that the administration can do somewhat relatively easily that could be helpful to the industry. And I have listed some of them in that presentation. But we have situations, for example, where one steel mill has had a strike, therefore a lockout, after the union decided to go back to work, for three and a half years. Well, the railroad union involved wouldn't

cross the picket line of the Steel Workers Union because of the violence of the United Steel Workers of America.

The Railway Labor Act arbitrator just ruled they were within that right because the Steel Workers of America is a violent union. At the same time, the NLRB rules that they're not a violent union. You can't have it both ways. These are things that can be straightened out, I would hope, relatively easily.

Maybe I'm just naive, and I don't live in Washington, but there is a whole series of these kinds of things that could be helpful.

MR. IKENSON: A question, sir?

MR. GRISWOLD: Dan Griswold, with the Cato Institute, and I have a question for Mr. Danjczek.

Your first proposal is import quota relief and a system of rolling back imports to where they were at a previous point and then holding that for four years. Now, the steel industry has had protection on and off for the last 30 years, and mostly on. And I believe from 1984 to 1992 we had a system of voluntary quotas. And during that time the steel industry was consolidating and losing about 10,000 jobs a year. Why would quotas this time around lead to an adjustment that doesn't seem to have happened over the last 30 years?

MR. DANJCZEK: I think it goes back to the premise,

Dan, that our industry, including the mini-mills sector, has been

damaged by predatory imports. And it merely -- "merely" may be

too strong a word -- is a reaction for a timeout to get a breath.

We are, in North America, the only place that I know of in the

world -- and I've traveled to most of the Japanese mills,

European mills, Eastern European mills, South African mills -that is open.

While I do agree with Mr. Bradford that we may not be
the lowest cost, we certainly among the lowest cost. And as
demonstrated by that book on the global steel trade that Mr.
LaRusso did last year, there had been some gross harm done to our
industry. And, therefore, based on that, it's a period of time
for this industry to get its breath, to go forward. That may not
be acceptable to you, but I hope I've answered your question.

MR. DANJCZEK: There's a question right here.

MR. OSTROFF: Yes, I'm Jim Ostroff, with Kiplinger.
Actually, a question for all three panelists.

As you all know, at the request of members of Congress, the Commerce Department is investigating to determine whether the importation of steel slabs as well as taconite should be restrained, restricted, banned, whatever, on national security grounds. And I'm just interested from each of you for your position on this, whether there is any merit to this, any merit to limitation, and what such a limitation would mean for the industries. Thank you.

MR. BRADFORD: I'd like to start off by pointing out
that it might be the taconite industry itself that may be a major
part of the cause of the lack of competitiveness of the U.S.
steel industry. It takes one and a half tons of steel pellets to
make a ton of pig iron. U.S. taconite costs are outrageously
high compared to what the Japanese or Europeans or Brazilians or
South Africans or Koreans use for iron ore.

The fact of the matter is we used up all of our good iron ore. So, they process stuff that is worse than waste in other parts of the world in order to make it usable. That is not competitive. And, by the way, I know that costs are a key part of the cost structure of the integrated industry. Military use is 0.0 percent. It was 28,355 tons last year. This is the year 2000 according to the American Iron and Steel Institute. I don't think it's a real issue.

I do have a slide, which I didn't show, that sort of gets at that issue a bit. I know they took it away, but maybe you can sort of see it. And what it is is two lines. There's one line, the blue line, that shows the price of Brazilian slabs FOB Brazil. And this starts in the year 1989 and goes through the year 2001, actually, our first quota data in there. The red line is the price of hot-rolled coils in the U.S. They're almost identical. The two go together.

So, there isn't any problem in my mind with imports of slabs, which the mills are doing. I mean, it really relates to the price of finished product. If you didn't have slab imports, there would be a real problem in the U.S. We don't have enough steel to make the capacity; we shouldn't build it. We don't have the good iron ore to support it. If you were to eliminate slabs as an import, you would have a more volatile work force in terms of number of employees. You'd have much bigger layoffs and much bigger swings, because the slab imports are used to take the peaks out of the cycle. I think it makes sense.

MR. DANJCZEK: I'll comment briefly on it. And I'm going to read from something that Mr. Johns from Nucor did last week, David, with you down in Tampa. And he makes three points, and I think I'll steal his because it's smarter than what I can do.

"In today's environment an integrated mill would have
to have his head examined to invest in a new hot end or a
facility even if they could get the financing." So, that's
reason one. You're not going to invest in a front end. Point
two that he makes is, do we like the notion of dump semi's?
Certainly not. Do we understand the motivation? We certainly
do.

And the final point I'd like to make is a personal one, having been involved in this industry in bringing in semi's for

the last 20 years. Those finishing end jobs that those semi's provide are very important to us. So, that has to be understood also. Thank you.

MR. IKENSON: I don't know exactly where we are in time. We got started a little bit late, but I imagine we have time for a couple more questions.

MR. DANJCZEK: It was not the domestic industry that caused us to start late.

(Laughter.)

MR. IKENSON: Dave, comments?

MR. PHELPS: Yes, just a quick one because there are some other questions.

First of all, a 232 investigation on slabs and taconite, or whatever it is, is just pure silliness. It doesn't make any sense. Slabs are imported because customers need them for the same reason that hot-rolled sheets and cold-rolled sheets and galvanized sheets and pipes and tubes are imported.

Customers want them. They want to buy them. They generally get a discount off domestic prices. You have to. You have to have a small discount in order to import larger quantities with a longer pipeline. One of the things that I haven't had a chance to say is imports come in because people buy them, not because there's some grand, vast conspiracy to undermine the U.S. steel industry.

MR. BRADFORD: I would like to make one point that I frankly should have made before. There may be a solution coming to a lot of these issues. And that involves Enron. You probably know Enron as a large natural gas pipeline and gas-producing company, but they're also very active in trading various commodities. And they are beginning to trade steel as a commodity, such that you would have one price worldwide.

Now, they're going to do it initially on hot-rolled, cold-rolled, and coated. It will spread. The difference between what they're doing and other e-commerce solutions is that they're actually acting as the principal. They're not just trying to interface between a steel maker and a customer. They will buy the steel from anybody. Initially they're starting in the U.S., but if it works it will be worldwide at one price. They will adjust it for freight. They will sell to anybody with, I think, a \$10-per-ton spread. No commission. That would, if it is successful, eliminate a lot of these issues. There would be no dumping because you can always sell to Enron.

MR. IKENSON: Yes, another question?

MR. SOLARZ: Thank you. I'm Barry Solarz with the American Iron and Steel Institute.

I would say that, notwithstanding Tom Danjczek's comment that we really have two steel industries in the United States, and leaving aside some pretty obvious facts about what

companies are currently able to do in terms of production vis-a-vis the U.S. auto industry in the Great Lakes area, that when it comes to dumped, subsidized, and disruptive steel imports, we really have only one steel industry in the United States. And, in fact, the position, whether it's AIIS or SMA or whether it's the specialty steel industry, is pretty much the same right now. And that is that we need a period of import stability.

So, I would ask this question of Mr. Phelps in particular and then give Tom, I think, a chance, if that's acceptable to you all, for a rebuttal to what I'm sure Dave will say. But I would ask Dave why he believes that whether it's Nucor, leaving aside your 10-year-old quotes for Mr. Iverson, whether it's Nucor today, whether it's SDI, which had extremely good profits, whether it's AK Steel, which has been cited several times before, or whether it's other specialty steel producers as Mr. Bradford put it, all of them, all of them are supporting the retention of an effective U.S. anti-dumping law. In fact, a number of those companies, including SDI and others are very much for more.

MR. IKENSON: Mr. Solarz, is there going to be a question?

MR. SOLARZ: Yes. Would you comment on those observations.

MR. PHELPS: I want to make this quick because I'm really dying to hear what Charlie is going to ask. He's coming out of his chair. Don't let him leave without getting Charlie's question.

It's pretty simple, Barry. The domestic steel industry has become accustomed to sort of client treatment from the government. They like protection. It generally results in higher prices in the U.S. market. The weaker companies can continue to exist and produce and limp along or, as I said in my comments, lurch from crisis to crisis. I heard years ago Mr. Iverson acknowledge that it was the steel quota system that built the first flat-rolled mill that Nucor produced.

I would argue that the integrated mills ought to think
very carefully about this issue in much the same way that the
auto companies who got quotas on imports of cars from Japan ended
up inflating the balance sheets dramatically of the Japanese
industry and causing the Japanese industry to have so much money
they invested in the United States and took another bite out of
the U.S. car industry.

I think that the excess profits made at the expense of U.S. steel consumers as a result of protection, holding the prices up higher than they are in the world markets, is inflating the balance sheets of the mini-mills. And I think if you look at the growth of mini-mills in the United States versus the growth

of the mini-mill anywhere else in the world you will see that the U.S. mini-mills are very, very different.

There isn't a mini-mill industry virtually anywhere else like the U.S., and it's due to the excess profits they were able to make in a wonderfully protected market. So, I would caution the integrated -- not that I expect they'll take my advice -- but I would caution the integrated steel producers that they're sowing the seeds of their own destruction with these quota programs.

MR. DANJCZEK: I'd like to make a point. I thank you for making the point. It was a very good point, and I may have failed to make it. The entire domestic steel industry, whether integrated, mini-mills, or specialty steel groups, the SSINA -- the Committee on Pipe and Tube happens to be in the room today, and others, Bar Products, et cetera -- all do support that form of import restraint.

The argument that this room could go on with all afternoon is how much those imports damaged us over the last three years. I cannot disagree with Mr. Bradford in his analysis of a strong dollar, et cetera, et cetera. But, clearly, when you have the surge that we went through the last three years, it affected our industries. And the entire industry is supportive of the one measure, of import restraints.

MR. IKENSON: We have time for one last question.

Charlie?

MR. BLOOM: I am Charles Bloom. I have a consulting company in town.

And this question is not the question I intended to ask, but I think it might be useful to introduce this. Americans have a limited, let's say, sense of history. And we're talking about this problem today as if this were the first time in human history that these problems have been faced. And I would really appreciate the comments of the panelists on the European experience.

Since 1985, the Europeans have, in a mixed series -this was not sequential -- they have eliminated subsidies. They
have opened their market. They have privatized their companies.
They have dismantled all the support systems of the European
union and the member states. And they have radically -"radically," to take Chuck Bradford's word -- consolidated their
industry.

Yesterday, the largest merger in the history of the steel industry was announced in Europe. It's only the beginning of what will be a process within Europe and around the world. But I'm wondering what the panel sees as the differences between the European approach and the U.S. approach. And I would

particularly go to the issue of legacy costs and the issue of subsidies. Thanks very much.

MR. DANJCZEK: Charlie, if I can, I'll take first shot at it. And that is, as you know, in the time I have spent in Europe studying that, the Europeans have a very fundamental difference. Their legacy costs, be it medical or be it retirement, are borne by the states. In Germany, France, et cetera, when you retire, your retirement and your medical are borne by the state. That is not our system in this country. So, that's a very fundamental difference.

Second, you know the size of those subsidies. We may argue the dollar amount that occurred between the sixties and the eighties in Europe. And you're well aware, as I previously mentioned, of a number of cases. It's hard to believe that the European Union beat us out in a number of cases filed in the last couple of months. So, things aren't perfect there either.

MR. PHELPS: I have a couple of comments. First, on the European system. Those cases were filed. It will be interesting to see how they're handled, because the dumping law in Europe is fundamentally different. And I would be very happy to adopt a number of its provisions, such as minimum duty and prospective duty payments and a few other technical things that glaze my eyes over when I get too far into the discussion.

But, fundamentally, the difference between the U.S. and the European experience, I think, is the Europeans -- this is an American perspective, and I apologize if I step on any toes -- I think they learned their lesson. The taxpayers finally figured out that subsidizing the steel industry is a never-ending proposition.

Billions upon billions of dollars, or tens of billions of dollars, later, they did the right thing. They privatized the firms and they cut off the subsidies. And they're rather unforgiving when it comes to requests for subsidies anymore.

What we see is a strange, inverted universe in the United States, where just the opposite is happening. I would give the Europeans credit. At least when they subsidized, every time there was an equity infusion into a -- pick a firm -- Usinor, British Steel -- the government said, "Well, now we own part of your firm." They took a piece of the action. It got to the point where the subsidies overwhelmed the private equity and then the government owned the firm.

In the United States, we just seemed to shovel money with no accountability. So, there is a difference in the way we subsidize. And subsidies simply are not the way to go. I don't think there's any question. Ask a European official from the 1970's or 1980's whether he thinks it's a good idea to subsidize

the steel industry. I don't think you'll get an equivocal answer.

The bottom line is, as one of my friends once said, "If you subsidize something, you get more of it." I think that's absolutely appropriate and clear here. If you subsidize something, you will get more of it. And what we're getting now is very, very poor marginal capacity operating in the U.S. market. When things go south, they are the most desperate. They are the ones who, during this past cycle, we believe were a major cause in over shipping to our customers and price suppression. If we protect them for another business cycle, we'll be back here in two or three more years having the very same discussion -- as we were two years ago.

MR. BRADFORD: Let me make a couple of points. First of all, the whole issue of legacies and legacy costs vary dramatically by the company and by the country. I mean, clearly, Canada has national medical insurance. Companies don't pay now; they don't pay later.

In the U.S. we've got some companies that have fully funded pension plans and some companies with grossly under funded pension plans. We have some companies with retires medical care liabilities that run into the billions of dollars on the balance sheets, and some with none. A lot depends upon the way you're structured.

Canada doesn't pay for this medical insurance out of printing paper money. The taxes cover that money. So it gets paid out of some other pocket. But it still gets paid for. The same thing is true in Europe.

As one sort of side comment, if you want to look at Burope as a whole, you can say, yes, they're a net exporter. But look at individual European countries. Germany is a gross importer to a greater extent than we are. They also export a lot. But steel does move around. It's very bad to generalize. And I think quotas -- 201 or whatever -- will make the matter worse, not better.

MR. IKENSON: I know there are more questions out there, but I'm afraid time is up. But if you have questions, feel free to corner any of the panelists upstairs in the Winter Garden. You're all invited to have lunch with us. Thanks once again to the panelists, and thank you all for coming.

(Applause.)

(Whereupon, the Cato Institute Policy Forum concluded.)

Donovan, Meg

From:

Donovan, Meg

Sent:

Tuesday, May 29, 2001 11:01 AM

To:

Donovan, Meg

Subject:

Enron in India

Enron project undermined

By Khozem Merchant and David Gardner

Published: May 28 2001 17:31GMT | Last Updated: May 28 2001 21:51GMT

A "basic rift" has emerged between domestic and foreign lenders to the Enron power project near Bombay, which threatens to undermine attempts to rescue India's flagship foreign direct investment.

Indian banks account for about 70 per cent of the \$2bn in debt raised to finance the \$2.9bn Dabhol project. Foreign banks provide the balance of the loans but some of them are protected by guarantees from Indian financial institutions. Indian bankers fear the foreign banks may call in the guarantees.

S.K. Chakrabati, chairman of the Industrial Development Bank of India, which accounts for about a third of Indian banks' total exposure of Rs66bn (\$1.4bn), on Monday said he was "substantially hopeful" of solving the rift.

Lenders to Enron's Indian unit, Dabhol Power Company, will meet in Singapore on June 5-6. The Indian lenders, which include the State Bank of India, the country's biggest, and ICICI, will meet on Wednesday to devise a strategy that would rely more on "persuasion because we lack the power of veto", one Indian official said.

Foreign lenders, which include US Exim, Bank of America and Industrial Bank of Japan, have become increasingly dissatisfied with the payments record of Dabhol's sole client, Maharashtra State Electricity Board. MSEB owes DPC \$45m in unpaid bills.

Last month foreign banks gave Dabhol the authority to withdraw from the project. Last week, Dabhol issued a "pre-termination notice" to withdraw in six months.

The past few days of tit-for-tat moves by Dabhol and MSEB have also raised complex legal issues. MSEB's decision to cancel the power purchase agreement, which defines contractual relations with Enron, seems destined to go to court. The question is: which court?

The agreement is governed by and based on English law. But the MSEB has referred the cancellation of the agreement, whose high tariffs are at the root of the dispute, to the Indian electricity regulator.

This is a risky strategy. "The regulator is not the authority that can decide on a purely contractual issue between parties," says a Bombay commercial lawyer. "In fact, even an Indian court of law would have to refer the matter to an arbitration tribunal as identified in the agreement."

Enron launched arbitration proceedings on April 12 after increasingly bitter wrangling. Many foreign bankers regard this official undermining of a contract as a dangerous game of "power poker", which is already having a chilling effect on multinationals' plans to invest in India's power and telecommunications sectors.

Three companies have told the Financial Times privately that they were reviewing their involvement with and strategy in India. One senior executive pointed out that the risk premium for investors in India has already gone up in the past six weeks.

He said the "hurdle rate of return" - the minimum rate of return on equity in dollars - that his and other companies eyeing opportunities in India were seeking had risen by one to two percentage points. "If this Enron thing works out badly," the senior executive said, "the hurdle rate is going to be infinity." Foreign companies are also becoming nervous by increasing domestic hostility. At the weekend, protestors attacked the Orissabased subsidiary of the US energy company, AES. Last week, about 2,000 protestors burnt down AES offices in northern Orissa. The state of Orissa pioneered the privatisation of power distribution in India.

The Enron dispute has also forced Karnataka, to the south of Maharashtra, to re-open 11 power purchase agreements signed with independent producers in a move to cut electricity tariffs.

Enron's position on its agreement remains unchanged. It refuses to renegotiate the contract, as the Indians suggest, based on the findings of a recently published official report by the respected politician, Madhav Godbole.

Enron regards the report as hostile even though the author was equally critical of the "quality of governance" in the early to mid-1990s when the agreement was signed. Commentators say this is a reference to the administration of Sharad Pawar, who as the then leader of Maharashtra was, and remains, a keen advocate of Enron's interests.

Meanwhile, K. Wade Cline, managing director of Dabhol, has told MSEB in a letter dated May 25 that the utility's cancellation of the agreement is not valid. MSEB axed the contract because, it says, of Enron's poor plant performance, notably a failure to raise capacity from a cold start in three hours, which Enron disputes.

On Monday, an Enron official picked up for the second time a cheque for Rs1.37bn that MSEB paid last week "under protest" but which was returned by the US company, apparently to clear any misunderstanding about its position.

As Mr Cline said in his leaked letter: "MSEB cannot have it both ways. We will rely upon any payment as constituting an unequivocal affirmation of the validity of the PPA [power purchase agreement by] MSEB." Enron's choreographed show of corporate pique on Monday at least shows it has learned something about the ways of Indian political play-acting.

Donovan, Meg

From:

Donovan, Meg

Sent:

Monday, May 21, 2001 2:50 PM

To: Subject: Donovan, Meg Enron in India

India's power struggles

Enron's plight could mark a turning point in India's attempts to attract foreign investment Published: May 20 2001 19:13GMT | Last Updated: May 20 2001 19:21GMT

The soap opera of Enron in India has reached a critical moment. Once again, the US energy company is pitted against the state of Maharashtra, in western India. But the twist this time is that Enron is threatening to pull the plug on the Dabhol Power Company, the single largest foreign investment in India.

It is, at first sight, a wearisome repetition of earlier episodes. The \$2.9bn Dabhol deal has been in trouble before. In 1995, a rightwing Hindu nationalist coalition of the Shiv Sena and Bharatiya Janata party - now the majority of the ruling coalition in New Delhi - ousted the Congress party government in Maharashtra and tore up the contract its predecessors had signed. The project went ahead after Enron secured a sovereign guarantee from the government of India to cover any failure to pay by the Maharashtra State Electricity Board, Dabhol's sole customer.

The first 740MW Dabhol plant is now functioning and a second 1,444MW phase is close to completion. But MSEB has been defaulting on payments since last December and wishes to renegotiate the contract with Enron, claiming the electricity tariffs are unjustifiably high.

This weekend Enron began proceedings to terminate the agreement. The move triggers an arbitration process that could begin as soon as Wednesday between Dabhol and the MSEB. But Enron's actions are beginning to look like the first step towards withdrawal from the project, in which it has a 65 per cent stake.

In the past 18 months, Cogentrix of the US, National Power of the UK, Daewoo of South Korea and Electricite de France have all withdrawn from the Indian power sector. Of eight so-called "fast track" power projects authorised by New Delhi in the past decade, Enron's is the only one to have been commissioned.

Whatever the outcome, a great deal is at stake. The imbroglio could further deter a barely detectable trickle of foreign direct investment into India. It could blight India's urgent need to double its electricity generation. And it raises the question of the extent to which contracts are enforceable in India - which alone could raise the risk premium future investors may seek.

Unless carefully handled, the controversy could damage India's ambition to raise growth by creating an investment-friendly environment, in spite of the success of industries such as software and pharmaceuticals.

Kenneth Lay, Enron's chairman, said earlier this month that while his company had no immediate plans to sell its Dabhol stake, the dispute "sends a very bad signal to the rest of the world as to the difficulties of investing in India, which is not what India needs right now".

Several ministers, including Yashwant Sinha, finance minister, have said they see no reason why Enron's experience should deter foreign investors. That is true only in the sense that there is very little foreign investment anyway. "The government is in denial," one minister admits. Publishing foreign direct investment figures has become "an annual embarrassment", he adds.

India received an estimated \$2.6bn in inward investment last year, or 0.24 per cent of worldwide foreign direct investment flows. Complete figures for 1999 show it received \$2.2bn. China, its regional rival, received

\$63.4bn - including Hong Kong - according to the United Nations.

In just as telling a contrast, Electricite de France, which pulled out of India after battling for seven years to advance its 1,000MW Bhadravati project, is proceeding with a series of power plants in China, Egypt and Mexico.

"We say we want foreign investment in the power industry and the policy says 'yes, yes', "says one civil servant who has soldiered long and hard to introduce reform. "But the practice, I'm afraid, is 'no, no, no'."

The Enron project, its critics say, is particular. Although Dabhol's power purchasing agreement with the MSEB is confidential, it is widely believed to embody a "hurdle rate of return" - the after-tax, internal rate of return on equity in dollars - in excess of 20 per cent. The normal rate sought by the dwindling investors in India's power industry is 16-18 per cent.

In addition, Dabhol's charges per kilowatt hour are higher than anticipated because its "load factor", or capacity usage, is much lower. The financially strapped MSEB is buying less and Enron's contract allows it to apply variable charges over the fewer units of output, raising the cost.

There is an important sense, however, in which all this is academic. India's state electricity boards are de facto bankrupt. Whether the cost per unit is one rupee or 10, they cannot pay.

The problem is user charges. Most Indian farmers get free power, much of India's urban middle class steals power and too many of India's populist politicians are frightened of agreeing on a minimum common tariff that might begin restoring the solvency of the state electricity boards and thus facilitate investment.

Many industrial users that could pay, angered by cross-subsidies they are charged for the inefficient system, have switched to secure "captive" capacity of their own, an estimated 10,000MW of which is now in place. While India needs to boost installed capacity by about 100,000MW by 2010, with no one to pay for electricity a mere 464MW was commissioned last year, according to Power Line, an industry newsletter.

"It is self-defeating to try to attract an Enron without first putting your house in order," one minister says. "It was always obvious that within the present set-up Maharashtra would never be able to pay."

Hari Dhaul, head of the Independent Power Producers of India, says restoring the solvency of "the [state electricity boards] is priority number one; unless we do that, all talk of power and infrastructure is academic."

The government made a start when Mr Sinha, in the February budget, announced a still-to-be-determined package of soft loans for states that reform their electricity boards and begin introducing more realistic tariffs. But since then the government has floundered over a series of scandals - not a propitious climate for reform.

The Enron case has the potential to become, if not another scandal, at least a blight. As a senior executive at a foreign power company puts it: "India needs modern infrastructure if it is ever to become a modern country. It needs foreign investment to do part of it but that will only come if the perception becomes that it is easy to invest in India."

Court Fight in G.M. Spy Case

López Argues Against Extradition From Spain

By EMMA DALY

MADRID, May 21 — José Ignácio López de Arriortúa, the once highflying automotive executive accused of stealing secrets from General Motors when he left G.M. to take a senior position at Volkswagen in 1992, told a Spanish court today that he would not return voluntarily to the United States to face charges of industrial espionage because he is not guilty and unfit to stand trial besides.

"It's all a lie," Mr. López, 60, told the three-judge panel conducting the extradition hearing.

Known as "Super-López" because of the rapid successes he scored at both companies in cutting procurement costs and increasing profits from manufacturing, Mr. López has maintained that he is unable to stand trial because of the brain damage he suffered in a 1998 car crash that left him in a coma for three months.

During lively testimony, Mr López, who was almost unrecognizable to many here after having gained about 130 pounds since he was last frequently seen in public,

was last frequently seen in public, told the hearing that "the doctors say I am not well." He added that a court in his home province, Vizzaya in the Basque country, has already declared him incompetent

and transferred control of his finances to his wife.

Several Spanish doctors appointed by the court have said that the injuries Mr. López sustained in 1998 have caused personality changes and memory lapses. The court's chief medical officer, Angel Canetada, concluded that Mr López "is not capable of understanding the consequences of his actions."

A psychiatrist, Jose Miguel López Ibor, testified that Mr. López "is not the same as before," adding that he tries to cover up gaps in his memory by creating new memories, "which sound reasonable and-credible, until you compare them to those of the people around him."

However, Charles Clark, an American psychologist hired by the United States Justice Department, said in court that Mr. López "did not have any limitations which would prevent him from doing what needs to be done in terms



The former automotive executive José Ignácio López de Arriortúa, shown in July, testified in Madrid to fight extradition to America.

of testifying." The Spanish prosecutor, Eduardo Fungairio, argued the case in favor of extradition.

Mr. López's chief lawyer, Manuel Ollé, also argued that his client had invented the production techniques he was accused of misappropriating, and thus was not guilty of stealing them. Questioned on the stand by Mr. Ollé, Mr. López said, "It was no secret, it was an invention of mine, and you have the right to take your ideas away with you." His interpretation was at odds with the legal concept of an invention or design made as part of a person's job, which become the employer's property.

In 1999, a grand jury in Detroit indicted Mr. López on charges including fraud and transportation of stolee documents after G.M. accused Mr. López, who had been director of production at its Opel unit, of handing over confidential documents to his new employers at Volkswagen.

Asked by the tribunal president, Carlos Cezón, if he was comfortable, Mr López said yes, but added, "I'd be better if someone brought me a little coffee," provoking laughter in the courtroom. "I have worked quite enough, now I'm retired and I live with my boss," he said, referring to his wife, "who is a great companion and a great cook, as well as gorgeous, and who makes a mean paella." He also entertained the courtroom with doting remarks about his children and grandchildren.

Mr Ollé said he expects the tribunal to issue a ruling in two to three weeks. A decision in favor of extradition would then be subject to ratification by the government.

Enron Unit Moves to End India Contract For Power

By SARITHA RAI

 BANGALORE, India, May 21— Fed up with its main customer's refusal to pay its bills, the Enron Corporation's Indian power-generating venture served formal notice on Saturday that it would terminate its power supply contract and pull out.

The move by the Dabhol Power Company, 65 percent owned by Enron, starts the clock ticking on a sixmonth notice period before the contract is voided, during which negotiations to settle the dispute are expected. The \$2.9 billion Dabhol project represents the largest single foreign investment in India.

Separately, Enron said today that it was withdrawing from a pipeline project in Qatar, which would have supplied some gas to Dabhol. The company said that the two steps were unrelated.

The Dabhol project has been the subject of a series of wrangles between the company and the governments of India and of the western Indian state of Maharashtra. The state-owned utility company that contracted to buy power from the Dabhol plant has defaulted on some \$64 million in unpaid power bills, and has accused Dabhol of charging too much.

Dabhol said it was left with little choice but to issue the termination notice after both governments failed to honor their contractual commitments to buy and pay for its output.

But in a statement issued over the weekend, Dabbol said it was "still open to constructive discussion on the solutions." The company said a "lasting and feasible solution" to the dispute would require that the two sovernments either honor their obligations to buy Dabbol's power or find other creditworthy buyers to take the power instead.

The first phase of the project now generates 740 megawatts of power, and the second phase, adding another 1,444 megawatts of capacity, is scheduled to go on line next month.

Under the contract, the termination that Enron has set in motion would oblige the federal and state governments to pay damages to Enron and the lenders that financed the project, possibly as much as \$500 million — the value of a year's output of power plus the project's \$300 million in debt — if it is shut down. overnment that an body could act by, pointing to the of the G7 group of all nations, which ficial statute or sec-

ing for an informal

but finance ministers of the euro zone countries would also meet for "deeper discussions" about economic co-ordination. Detailed plans for the new informal forum would be drawn up in coming weeks, Mr Waigel added. scheduled for November 16, is an embarrassing setback for the ruling coalition, which is facing general elections seven months from now.

Ministers fear that, as a result of the court's deciNato membership will be delayed until after negotiations with the alliance begin in late November.

Nato diplomats have suggested privately that an early vote is desirable in rangarians are psychologically prepared for membership of the European Union.

Earlier in the year, the government introduced a draft law permitting Hungarian businesses, including foreign-owned ones, to buy up to 300 hectares of agrition.
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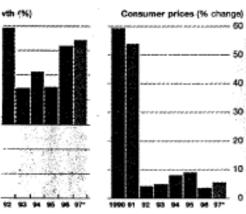
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NEWS: LATIN AMERICA and CARIBBEAN

plies top concerns in Dominican Republic

pularity falls steeply

d numbers, bad name



Source: Dominican Central Bunk; Inter-American Development Bank



Leonal Farmandez presiden

consecutive term ag at the centre of atry's politics for years. Mr Balaguer i to see Mr Fernuceeed him as he the other candiunworthy.

rnández, however, i himself with a legn which his Liberay has minority repon.

will depend on the of congressional in May, the camwhich has started. president's low popand the problems the country's majorsuggest that Mr ez's Liberation party t fare well. This hat his legislative me would succeed he forms alliances ith the Revolutiony of Jose Francisco omez or Mr Balaguer's Reformist party. With clear signs that Mr Balaguer is likely to stand again in the presidential election in 2000, he would consider it an advantage to have early influence, or even control, over government policy. Mr Balaguer ran a centralised economy and if he were to return, Mr Fernández's changes could be slowed, if not reversed.

One of Mr Fernández's few successes with congress was the approval of a bill to privatise 24 unprofitable state enterprises.

This is modelled on the Bolivian "capitalisation" programme, under which, in exchange for injecting new capital into the enterprise, investors have a 50 per cent stake and management con-

The programme will save the state budget about \$250m a year in subsidies, and the government is hoping the sell-offs will turn around the fortunes of several unprofitable enterprises.

It will not be easy. The sugar company, with 10 mills and several thousand acres of farms, is being studied by prospective investors. But there is no clear indication of the precise debt of the company and the capacity of the mills. Some of the land owned by the company has been overrun by squatters or illegally occupied by wealthy Dominicans.

However, it is the power company which is the touchstone of the privatisation programme and the Achilles heel of the economy. It has been unable to provide adequate power for several years, and is heavily indebted.

"The production of electricity is a major problem which has held up the tense following the Dominican government's suspension of visas for visitors from Haiti. Both countries share the island of Hispaniola.

The Dominican government said that several thousand Haitians had crossed the border illegally using

Dominican Republic and

Haiti have become more

unsettled

between the

Traditionally

relations

ment said that several thousand Haitians had crossed the border illegally using fake documents and that, while its embassy in Haiti would renew existing visas, it would not issue any new ones until Haitian authorities arrested the counterfeiters.

expansion of many sectors," said Mr Piantini. "We have lived with this problem for the past 20 years, but we are on the verge of a solution." Legislation for privatising the power company has been before congress for four

The fillbustering has led to charges and counter-charges about the involvement of legislators in the growing private electricity business.

For Mr Castillo on his quest for a loan from his family, the causes of Mr Fernández's waning popularity are clear.

"It is all the government's fault - the failure of the electricity and the increase in the price of food.

"They can blame the drought this month. What will they blame next month?"

Canute James

NEWS DIGEST

Clinton b Mercosur

President Bill Clinton yesterday end four-nation South American trade graced criticism from US officials. Spoto Brazil, Mr Clinton attempted to p that the US sees Mercosur as a threthe region. "I support Mercosur. It Brazil and for all its members," Mr also quite a good thing for the US.

The members of Mercosur, which are Brazil, Argentina, Uruguay and Chile are associate members.

After meeting Fernando Henrique president, Mr Clinton said both cour their commitment to begin negotiat: Free Trade Area for the Americas at Santiago, Chile, next April. Mr Clin: Brazil would play a leadership role: However, the US and Brazil have yetalks should proceed. Unlike the US talks on cutting tariffs to start imm-

Referring to forthcoming global ta emissions, Mr Clinton said the US " anything that might damage Brazili developing countries fear the US witalks to impose heavy restrictions of

Mr Clinton faced criticism when it guide published by the US embassy corruption in the country was "endithe comment had been "an appalliz. The guide had not reflected the adm had been changed.

■ CAYMAN MOVE

Qatari offshore ba

The Cayman Islands government he Qatari-owned offshore bank and its weeks after another bank in the gr: Bahamas, was closed by Bahamian:

The move follows the mysterious Bahamas in September last year of assistant general manager of First (has been closed. Mr Ahmed was in business, and was last seen at one aleading hotels. It is not clear wheth linked to the problems of the banks said yesterday.

First Coyman Bank and Gulf Un; company, have been closed "until for official statement said. The closed G Bahamas is part of the group.

SECESSION PROPOSAL

Independence vote

Parliamentarians in Nevis have vota St Kitts-Nevis federation, and Nevis referendum to determine whether the

rs force oil wells to close

the event of attempts at physical damage, said Petro Ecuador.

"Private companies' oil wells are

workers' pay which is funded by central government. They also want television services to be made limited scope to meet the financial demands of strikers as it has been striving to cut the 1967 fiscal defiman and French finance ministers, suggested that the so far unnamed forum should meet regularly ahead of meetings of all 15 European Union finance ministers. It would monitor general economic developments deal among EU members on a German-inspired stability pact to enforce budgetary discipline.

French officials suggested the new forum could include central bank governors in discussions on matters such French government that an informal body could act effectively, pointing to the example of the G7 group of industrial nations, which has no official statute or secretariat.

By opting for an informal

but finance ministers of the cure zone countries would also meet for "deeper discussions" about economic co-ordination. Detailed plans for the new informal forum would be drawn up in coming weeks, Mr Waigel added.

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FT 10-15-9)

NEWS: LATIN AMERICA and C

Food prices and power supplies top concerns in Domini

President's popularity falls sto

Jose Castillo's visit to Santo Domingo from his home town in the north west of the Dominican Republic involved some shame for the family.

He had come to see his brother, a construction worker in the city, to seek a loan.

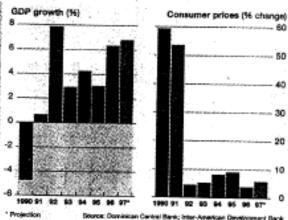
"Not only did my family's farm fail, but we could not find the money to pay the higher prices for food," said Mr Castillo.

protracted drought which led to a food shortage and cut output from the country's hydro-electric station, worsening an already parlous electricity supply. has led to sporadic protests in this Caribbean country of 7m. The protests coincided with the publication of opinion polls which indicate a significant decline in the popularity of Leonel Fernandez, the president. His popularity rating of 90 per cent a year ago has fallen to 26 per cent. Just over 70 per cent think the government is not doing a good job.

If economic indicators were anything to go by, the government should be getting good marks. "The economy has been expanding steadily for the past five years, and there is every indication that it will continue to expand," said Mr Luis Piantini, deputy governor of the central bank, "All the major sectors are growing and inflation is relatively moderate." The economy expanded by 6.9 per cent between January and June. compared with 6.4 per cent in the first half of last year.

Dominican Republic: good numbers, bad name







with strong growth in communications, construction and tourism, according to the central bank.

Mr Fernández's problem lies in the divergent perceptions of Mr Castillo and Mr Piahtini, said Hugo Guiliani Cury, president of National Construction Bank and a former central bank governor. "People see the lack of electricity and high prices for staple food," he said. "They do not easily see the growth in telecommunications and tourism. They see big government and no leadership in economic policy."

Mr Fernández was elected last year on a promise to "modernise" the country which shares the island of Hispaniola with Halti. His election was orchestrated by his predecessor, Joaquín Balaguer, who was forced into retirement by electoral reforms that prevented him from a consecutive term after being at the centre of the country's politics for about 30 years. Mr Balaguer preferred to see Mr Fernandez succeed him as he regarded the other candidates as unworthy.

Mr Fernández, however, has found himself with a legislature in which his Liberation party has minority representation.

Much will depend on the outcome of congressional elections in May, the campaign for which has started. But the president's low popularity and the problems faced by the country's majority poor suggest that Mr Fernández's Liberation party will not fare well. This means that his legislative programme would succeed only if he forms alliances either with the Revolutionary party of Jose Francisco Pena Gomez or Mr Bala-

guer's Reformist party. With clear signs that Mr Balaguer is likely to stand again in the presidential election in 2000, he would consider it an advantage to have early influence, or even control, over government policy. Mr Balaguer ran a centralised economy and if he were to return. Mr Fernandez's changes could be slowed, if not reversed.

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This is modelled on the Bolivian "capitalisation" programme, under which, in exchange for injecting new capital into the enterprise, investors have a 50 per cent stake and management control.

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"The production tricity is a major; which has held

Ecuador protesters force oil wells t

By Justine Newsome in Quito

Production at eight oil wells, owned by the state oil company Strikers have also closed highways connecting the Amazon provinces in eastern Ecuador to the rest of the country and air striker in a the event of attempts at physical damage, said Petro Ecuador.

"Private companies' oil wells are

workers' pay which is funded ? central government. They als want television services to be ma:

Power Politics

Energy Crisis Offers Clues to the Workings Of Bush Administration

Cheney Does Heavy Lifting And Bush Rides Agenda; Taste for Horse-Trading

'A Lot of Pain in the West'

By Jeanne Cummings

Staff Reporter of THE WALL STREET JOURNAL WASHINGTON—George W. Bush had barely celebrated his belated presidential victory when he was hit by the energy crisis in the West.

In a series of telephone calls to Mr. Bush's Texas ranch before Christman, Utah Gov. Michael Leavitt spent hours raising the alarm with the president-elect's top aides. A supply squeeze had sent utility bills soaring not just in California but in neighboring states as well, with the prospect of bigger spikes in the months ahead.

How Mr. Bush went on to handle the crisis, the first big challenge of his presi-

dency, offers some early clues to how his White House will function. He has leaned heavily on Vice President Dick Cheney to handle the details. That allowed Mr. Bush to stick doggedly to his chosen public message—and shielded the president from some difficult policy choices. Even Mr. Leavitt never in-



George W. Bush

sisted on speaking directly to the new president, who was busy naming his cabinet.

Mr. Bush bent his free-market, limitedgovernment principles to accommodate a crisis, but so far by only a little: He offered a single two-week extension of Mr. Clinton's executive order directing suppliers to sell power to nearly bankrupt California utilities. While turning to national issues, Mr. Bush remained open to a statelevel problem, offering his former gubernatorial colleagues a sensitive ear. And he worked hard to use unexpected events to help buttress his arguments for his policy agenda. Just as he has used the economic slowdown to garner support for his tax-cut agenda, he hopes to use the Western energy crisis to win political support in Congress for his controversial agenda of expanding exploration into environmentally sensitive areas in Alaska and the Rocky Mountains.

Such exploration might not yield energy for years, or yield much power at all, especially of the sort California needs. But it's a pet project of a White House where the president and vice president are both veterans of the oil industry. Winning the necessary support for exploration is part of the challenge of drafting a comprehensive energy bill, which a team of top aides, led by Mr. Cheney, is working to produce within 45 to 60 days.

The energy problem has shadowed Mr. Bush throughout the first month of his

presidency. It commanded his private attention every day of his first week in office, even as he was publicly unveiling education-reform proposals. More recently, he has received regular briefings from Mr. Cheney, who is consulting key members of Congress and energy experts. The matter will move front



Dick Chency

and center today when the president makes his first foreign visit, to Mexico, where he is expected to discuss expanded natural-gas exploration and trade with Mexican President Vicente Fox Quesada. At the same time, Mr. Cheney will be back in Washington convening the first working meeting of the various cabinet secretaries whose departments will be affected by a national energy bill.

Some top Republicans believe the energy crisis could cast an even larger cloud over Mr. Bush's first year than the softening economy—especially if the continuing supply squeeze leaves Western consumers facing new price increases this summer, as widely predicted. "We recognize that this is a challenge we will be faced with at least through the summer. We're obviously monitoring it very closely," says Energy Secretary Spencer Abraham. The problem has its roots in California's 1996 energy-deregulation bill, signed by former GOP Gov. Pete Wilson. As part of the negotiations over the bill, the state's utilities agreed to buy power on short-term contracts, making them vulnerable to wholesale-price swings. The law also capped consumer bills, which meant rising fuel costs couldn't be passed along to the users.

The situation became critical last year when natural-gas prices spiked upward at the same time that hot summer weather and a booming economy increased usage and low rainfall depleted the region's hydroelectric power. California soon began gobbling up any available power in the Western region's electric grid, which drove wholesale rates sky-high and wound up increasing the utility bills of consumers in neighboring states. Idaho residents, for instance, saw their bills rise by 25%, while California users still benefited from retail-price caps.

So Gov. Leavitt wasn't the only Western governor trying to get the new president to focus on the issue. Wyoming Gov. Jim Geringer raised it on Jan. 9, when he and Mr. Bush were standing together in the pasture parking lot of the Bush ranch, awaiting the arrival of other Republican governors invited to a Bush-sponsored barbecue. The issue was also discussed later among all the governors, but only in broad terms, participants say.

Three days later, Clinton administration officials convened the first meeting of all the parties involved in the California crisis. To provide a voice for Mr. Bush's team, Clinton aides invited the presidentelect's friend and fellow Texan Kenneth Lay, head of Houston-based Ruron Corp. As the largest trader of gas and electricity in North America, Enron has profited from the energy crisis. During the 2000 campalgn, Mr. Lay denated more than \$300,000 to the GOP, according to the Center for Responsive Politics.

A second meeting was held four days later and the rough outlines of a solution began to emerge, but time had run out on the Clinton team. The only question left was how to handle an executive order to keep the lights on in California.

On the Wednesday before Inauguration Day, Gene Sperling, Mr. Clinton's top economic adviser, and his Bush counterpart, Lawrence Lindsey, sat down for a final discussion in a second-floor office at the White House. They agreed to one last Clinton order that would reach, by three days, into the Bush term. The goal was to give the Bush team some breathing room.

Gnd

The next day, Mr. Bush and his top advisers settled into the Blair House in Washington to put the finishing touches on his inaugural speech. But their work was at times interrupted by discussions about the energy crisis. That night, Mr. Lindsey arrived and briefed the president on his meeting with Mr. Sperling.

Call From Gray Davis

On Inauguration Day, Mr. Bush received a congratulatory call from California Gov. Gray Davis, who had stayed in Sacramento because of the crisis. In that call, Davis aides say, the Democratic governor made his first direct pitch to Mr. Bush for an extension of the Clinton executive order forcing energy sales to California utilities. While the two men diverge politically, they had worked together on ssues affecting border states. Last June, Mr. Bush was one of three U.S. governors who joined six Mexican governors at a dinner hosted by Mr. Davis in Sacramento's Crocker Art Museum. Their shared experiences as state leaders made Mr. Bush sympathetic to Mr. Davis's request for extra time to get a recovery bill through the state legislature.

On Sunday night, Mr. Abraham, the new energy secretary, called Mr. Davis to hear another pitch, and the two men spoke again on Monday, the first official working day of the Bush administration. While Mr. Davis was sounding out Mr. Abraham, Mr. Lindsey met with Mr. Bush in the Oval Office and recommended that he grant the extension. The strongest argument in fa-vor of issuing the order, Mr. Lindsey says, was Mr. Bush's belief that the federal government should help states solve their own problems. Later that day, while Mr. Bush was highlighting education reform, Mr. Lindsey, Mr. Abraham, Commerce Secretary Donald Evans, Treasury Secretary Paul O'Neill, and Christine Todd Whitman, director of the Environmental Protection Agency, began sorting out the administration's short-term and long-term responses to the crisis.

On Tuesday, Mr. Bush discussed energy with his economic policy team, which included Messrs. Cheney and Lindsey, Chief of Staff Andrew Card, Deputy Chief of Staff Josh Bolten, and top aides Karen Hughes and Kari Rove. Mr. Bush took a seat in front of the Oval Office fireplace while his aides settled in on small couches. The energy crisis had to be managed on two fronts, Mr. Bush told the group. Short-term, they had to do what they could for California. But an equally important objective needed to be develop-

Power

ment of a comprehensive policy for the country because of the broad economic implications of the crisis, he said.

They weighed setting up a cabinetlevel task force, an idea that Messrs. Bush and Cheney appeared to have already discussed privately. The two men often confer each morning, before or after the regularly scheduled national-security briefing. They also chat throughout the day as they come and go from meetings. As the group hammered out the details of which agencies needed to be represented on the task force, it was not lost on anyone that the energy crisis in the West may also be an opportunity to build support and a sense of urgency for their national energy agenda.

Testing the Waters

Mr. Bush tested the political waters the next day in the Cabinet Room during a meeting with bipartisan leaders from Capitol Hill, according to Nevada Democrat Sen. Harry Reid. This time, It was the president who raised the subject, and Western lawmakers jumped at the call for stronger leadership and action on the issue. The conversation didn't go into specifics though, because "we would have gotten into an argument" over Mr. Bush's support for drilling in Arctic National Wildlife Reserve, recalls Mr. Reid, an ardent opponent of that proposal and a staunch supporter of expansion of renewable energy.

On Friday, the White House was teeming with educators, lawmakers, governors and citizens who had come to witness the transition to a new administration. After a public event hosted by Mr. Bush to highlight education, four governors—Messrs. Leavitt and Geringer, Arizona's Jane Dee and Idaho's Dirk Kempthorne-slipped into Mr. Cheney's tiny West Wing office to talk about energy. The room smelled of fresh paint, and the glasses were so new that they lacked the residential seal. For nearly an hour, Mr. Chency probed the governors about how the crisis was affecting their states and constituents. None of the governors brought the issue up with Mr. Bush.

The governors decision to seek out Mr. Cheney rather than intrude on Mr. Bush's choreographed agenda created an awkward moment the following Monday when Mr. Bush announced the creation of the Cheney-led energy policy group. "Can't think of a better man to run it than the vice president," Mr. Bush said. "We're very aware in this administration that this situation in California is beginning to affect neighboring states. Western governors came to see the vice president," he said, and then rushed to add—"and they came to see me, as well."

Since that announcement, Mr. Cheney has taken over the job of creating an energy-policy bill and Mr. Bush receives regular updates from Mr. Lindsey, including a session held last night just before the president's trip to Mexico. But the potential political and economic ramifications of the energy crunch on the new administration are as layered as the problem itself. And as consumers face the full cost of the crisis, pressure will become enormous on Mr. Bush to wade deeper into it.

Administration officials worry that high energy costs could prompt consumers to cut household budgets and persuade factories to begin layoffs. The "soft landing" that the Bush administration is counting on could become a hard one and threaten the government surpluses Mr. Bush must have to sustain his tax cut and other domestic initiatives. As Mr. Bush himself warned when he unveiled his national energy policy during a September campaign stop in Saginaw, Mich.: "Our nation has had three recessions in the last generation, and each one was tied to an energy shock."

'A Very Difficult Call'

The Western energy crisis also will continue to test the balance between Mr. Bush's commitment to open markets and his sympathy for the plight of a fellow governor. The decision to extend the Clinton forced-sales order was "a very difficult call," Mr. Lindsey says, in part because the help provided to California came at the expense of the utility customers in other Western states, several of which are governed by Mr. Bush's close Republican colleagues. "This was not a costless extension," Mr. Lindsey says. "There's a lot of pain in the West for having done the two-week extension."

But the supply crunch that drove up wholesale costs this winter may only get worse as temperatures warm in the West and residents from California to New Mexico turn on their air conditioners. Republican officeholders, wary of the sort of political backlash that helped cost one California Congressman his sest last November, are pressing for further federal intervention. Alaska Sen. Frank H. Murkowski, the powerful chairman of the Senate Rnergy and National Resources Committee, says a market-based cap on wholesale prices may be needed for a transitional period.

But Mr. Bush is finity rejecting the idea of price caps. "A short-term delay of a needed solution." he says. The idea is also

Cont. 19

Power

anathema to Mr. Cheney, whose first White House tour during the Ford administration was dominated by an energy crisis made more complex by President Nixon's policy of price controls. Nasdaq Chairman Frank Zarb, who served as Mr. Ford's energy czar and worked with Mr. Cheney and other aides while crafting an energy policy, says the price controls were "just a dumb idea." In a recent interview, Mr. Lindsey said even a temporary cap on natural gas or electricity is not something he'd recommend. "Anyone who looks at the history of price caps would have to suspect one that was so-called temporary," he says.

But adhering to free-market principles could yet become a drag on Mr. Bush's popularity, warns former U.S. Sen. Bennett Johnston. a Democrat Mr. Bush once considered for energy secretary. If the administration takes no action and prices remain high, he says, "people will start trying to find somebody to biame."

John Finika
 contributed to this article.

THE WALL ST

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VOL. CCXXXIII NO. 25 . EE/WO ★★★

FRIDAY, FEBRUARY &

Power Politics

Enron's Plant in India Was Dead: This Month. It Will Go On Stream

Surprising Comeback Reflects Concessions by Company, New Realism by Politicians

An Official's Dress for Success.

By JONATHAN KARP And Kathieve Kramhold

Stuff Reporters of Tota Wall, Senger Johnson, GUHAGAR, India—Three years ago, the government of India's wealthiest state joiled the international business world by canceling a huge U.S. power plant being built on a red volcanic bluff here.

Environmentalists had been saying it

would destroy fish and famed mange groves. Stone-throwing protesters kept the controversy in the spotlight for months. Then Maharashtra state elected a Hindu-justionalist government, which termed the plant too expensive, insinuated that bribes had been paid by project leader Erron Corp. of Houston, and declared an end to the \$2.5 billion project. The sudden move turned the partly built plant into an emblem of the per-its of doing business in a high-risk, sometimes-xenophobic land such as India.

Today, the power plant towers over the Arabian Sea coast, and in a few days it will fire up its huge turbines and begin selling electricity. Moreover, the \$26-megawatt unit is just the prejude to a second stage that will triple the Dahhol plant to 2,450 megawatts. even more than originally planned. It is Enron's biggest overseas project and india's biggest fereign investment. And both sides, it appears, couldn't be happier.

New Consensus

How did Enron turn it around? Well, it wasn't a slam dunk. The company had to make substantial concessions at the bargaining table. But ultimately the big project, known as Dubhol Power Co., came back from disaster because Enron and nationalist Indian politicians both learned from their mistakes, and actually came to champion one another. The very politi-cians who wowed to "throw Euron into the drain who were to "throw shron into the Arabian Sea" now toust their partnership with the Texans. As for the corruption tharges, the politicians now say they were just a brass-knuckle bargaining play.

The surprising outcome is that after pobarizing India, Enron wound up ferging a consensus in this country of 550 million people that economic reform must go on. We faced a lot of naysayers throughout the entire process, and people who thought we could never pull it off, never recover, says Rebecca Mark, the chairman of Enron's international unit, who led the pro-"We feel extremely proud to have

proven them all wrong." The Dabhol project was born in 1992, less

than a year after a balance of payments cri-sis forced India to begin dismantling its socialist economy and opening up to foreign investment. Euron was eager to get a jump on the potentialty mammeth market. Dabhol became the first foreign-owned power project approved by the central government,

What's News-

Business and Finance

THE NASDAQ COMPOSITE FELL, in its third-worst point drop ever, as technology stocks were hit by falk of a semiconductor price war between AMD and Intel. The Nasdaq composite feli 83.34, or 3.34%, to 2410.07, and the Dow Jones industrials declined though not as sharply. Falling bond prices added to the selling pressure.

AMD announced it will post an operating loss in the first quarter due to price competition with a resurgent Intel. Its share price dropped 9.6%.

(Afficies on Pages C1 and A3) -46

Light trucks and SUVs may face tougher emission standards, a potential blow to auto makers, under a proposal that the EPA is planning to unveil as early as this month.

(Article on Page A3):

An investor group indicated it would self its controlling stake in America West only if the deal included all of the airline's shares, a signal to Continental Airlines that it can't take control of the carrier on the cheap.

(Article on Page A3)

The Fed said its policy-making committee has agreed to simplify the wording of the directives it crafts after its meetings on interest rates.

(Artificie on Page A2)

Most retailers posted better-thanexpected sales for January as cold weather boosted sales of winter goods. Discounters such as Target and Wal-Mart continued to perform strongly.

(Article on Page 84)

Brazil reached a preliminary accord with the IMF on new economic targets that imply more belt tightening and potentially higher rates.

- (Article on Page A12)

Flowserve is the U.S. company that made an unsolicited bid of about \$1 billion for Scotland's Weir Group, people familiar with the bid said.

(Artificite on Preper ARS)

Starwood is looking to sell its Caesars casino operations, according to people familiar with its strategy.

(Article on Page A4)

Top Hollywood screenwriters won a deal from Columbia Pictures to give them a percentage of movies' profits.

(Article on Page 82)

CBS is weighing a plan to turn its Web holdings into a separate, public company, hoping to eash in on the current frenzy for Internet stocks.

(Article on Page 82)

World-Wide

CLINTON'S TRIAL IS MOVING toward quick conclusion in the Senate next week. Republicans joined Democrats in voting to cut off further testimony and set a sched ule for a vote on the impeachment charges. as early as Thursday. House prosecutors, during a special session tomorrow, will be permitted to show portions of videotaped depositions of the three witnesses they called. But by 70-30, senators rejected pleas by prosecutors to call Monics Lewinsky before the chamber. (Article on Page A16) | Senate Republicans also were retreat

ing from a proposal for a "finding of" fact" that would conclude Clinton conunitted offennes, but notable 't out him.

Serbia's parliament cleared the way for Kosovo peace talks near Paris beginning tomorrow. The U.S. and allies want a truce in the war that has killed at least 2,000 in the past year, and autonomy for the province, which is 90% ethnic Albanian, Clinton prom-ised to have an "exit strategy" before sending U.S. troops. (Article on Page A18)?

iraq has suffered heavy damage to its air defenses over the past several weeks of U.S.-British attacks, the Pentagon said. It estimates one-fifth of antiaircraft sites have been knocked out, and sald Saddam Hussein appears to be withdrawing gear that re-mains. Meanwhile, chief U.N. arms inspector Butler said he will step down in June.

Drug-resistant AIDS virus strains are

circulating in the U.S. at levels higher than had been seen previously, according to research sure to complicate use of the new drug decktalls. Also at the Chicago bonder-ence on the disease, researchers coliffraed some patients may someday be able to half or suspend therapy. (Articles on Page B5).

A Lockheed Martin fighter program has racked up \$150 million in overruns in its rivalry with Boeing for what may be the biggest such contract ever, Pentagon aldei said. They disagreed on whether the problem will delay selection of a firm to build the Joint Strike Pighter. (Article on Page A4) of An anticlotting drug helped test subjects

fully recover from severe strokes when treated as long as six hours after sympl created as long as six hours after symptoms began, research on Abbetti Label prourokinase indicates, Current treatment, with Generales to Assess Courses with Genericch's Activase, must be given within three hours: (Article of Poles Ball) Low-wage and minority workers saw

healthy pay gains in 1998, further making up for losses over the past decade, administra-tion figures show. The light labor market pushed up hourly wages for adults in the bottom 20% of the pay scale by 2.7%, after inflation, to \$7.77. (Article on Page A2)

Destsche Bank helped fund construction of Auschwitz, according to the historian for the bank, which has portrayed itself as less involved with the Nazis. The disclosure may delay U.S. regulatory action on its purchase of Bankers Trust. (Article on Page AIS)

An Olympics drug conference falled to back a two-year ban on athletes for drug offenses. President Samaranch, under It, e



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New Consensus

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proven them all wrong."

The Dubbol project was born in 1992, less than a year after a balance of payments or is forebd India to begin dismariling its so-cialist economy and opening up to foreign investment. Entron was eager to get a jump on the potentially marmoth market. Dubbol became the first foreign-owned power project approved by the central government, one of eight that New Delhi hoped would be beames of its sweeping economic reforms.

Too Tough

Seven years later, only two of these ventures are operating, and five haven't even railed down financing. Some potential U.S. investors, such as Edison International of Rosemend, Calif., found it too difficult to navigate India's financial and po-

litical terrain, and left.

The early years were a hard alog as Enton struggled to win over lenders, shepherd Dabhol through regulatory agencies and legal challenges, and overcome some unexpected dangers. After a bomb blast in Enronstaffors' Bombay hetel in March 1993 amidretiginas strife, Enron-executive Joseph Sutton calmed employees over chocolate icecream sundaes in the abandoned kitchen, then went back to work by candielight. "We didn't want to slow down," says Mr. Sutton, now chief executive of Enron International.

Por four years, the former Marine led Secon's ground campaign. In mid-1994, he briefly thought victory was at hand after watching a lawyer defead the project in court, making an impassioned speech on the sanctity of centracts that wen court-room appliance and the lawsuit. Although leftists, environmentalists and groups opposed to foreign investment filed many more suits against aspects of Dabhot, all eventually were dismissed or withdrawn.

Nationalists in Power

But in March 1995, the radical Shiv Sena group and the Bharathya Janata Party, or BJP, swept into office in Maharashtra state. They had campaigned against the power project, invoking seedests, or economic self-retiance, an ideology that tapped into Indians' longstanding suspicion of maitmationalists. Another reason to target Dabhol: It had been approved by the rival Congress Party.

The nationalist victory caught Euron off guard. Ms. Mark had cultivated bureaucrats and Congress Party politicians but hadn't reached out to the Shiv Sena or Eur. After assuring Euron of fair treatment, Chief Minister Manchar Joshi announced the project's cancellation on Aug. 3, 1966, defying warnings by U.S., British and French officials and investors that India's reputation would

suffer. Construction stopped.

A stimmed Enron filed for international arbitration, demanding \$300 million in compensation, Maharashtra state hit back with a lawsuit in Bombay to wid Dakhol's contract, accusing Euron and its partners of "fraud and misrepresentation" of data and, for the first time, of corruption. The state claimed that Linda Powers, Enron's vice Flease furn to Page A6, Colount 1.

Discounters such as Target and Wal-Mart continued to perform strongly.

(Article on Page 84)

Brazil reached a preliminary accord with the IMF on new economic targets that imply more belt tightening and potentially higher rates.

(Article on Page A10)

Flowserve is the U.S. company that made an unsolicited hid of about \$1 billion for Scotland's Weir Group, people familiar with the bid said.

(Article on Page A13)

Starwood is looking to sell its Caesars casino operations, according to people familiar with its strategy.

(Article on Page A40

Top Hollywood screenwriters won a deal from Columbia Pictures to give them a percentage of movies' profits. (Article on Page 92)

CBS is weighing a plan to turn its Web holdings into a separate, public company, hoping to cash in on the current frenzy for Internet stocks.

(Article on Page 52)

The U.K. lowered its minimum lending rate by an unexpectedly steep half a percentage point to 5.5%.

carticle on Page A12)

Online stock trading was disrupted for the second consecutive day by a computer glitch at E*Trade Group.

(Article on Page C6)

Microsoft played a redone videotape for the judge hearing its antitrust trial, scrambling to salvage the credibility of a key piece of evidence.

(Article on Pege B6)

Factory orders increased 2.3% in December, the latest sign of strength, but for the full year, orders rose at their slowest pace since 1991.

(Article on Page Att)

Markets-

Stocks: Volume 851,730,380 shares. Dow Jones industrials 904-50, off 62-11; transportation 3047.14, up 21.80; utilities 291.29, off 3.66.

Bands: Lehman Brothers Treasury Index 8542.37, off 42.34.

Commodifies: Oil \$12.03 a barrel, off 35 cents. Dow Jones-Alio futures index 75 cents. Dow Jones-Alio futures index 75.17, up 0.157; DJ spot index 113.36, off 0.13.

Dollar: 112.13 yen, off 0.71; 0.8821 euro, off 0.0025; 1.7253 marks, off 0.0049

A Lockheed Martin fighter program has racked up \$350 million in overruns in its rivalry with Boeing for what may be the biggest such contract ever, Pentagen aides said. They disagreed on whether the problem will delay selection of a firm to build the Joint Strike Fighter. (Article on Page A4)

An anticlotting drug helped test subjects fully recover from severe stroke when treated as long as six hours after symptoms began, research on Abbott Laber prourokinase indicates. Current treatment, with Genentech's Activase, must be given within three hours. (Article on Page 18)

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An Olympics drug conference filled to back a two-year ban on athletes for drug offenses. President Samaranch, under fire amid a corruption scandally also lates? a revolt over a bid to strip Olympic Committee members of votes in selecting host cities?

A court martial began for a Marine pinor whose jet killed 20 on a ski lift in likely. The judge ruled Capt. Richard Ashiby can the forced to testify about a missing videotape. A second artistor is to go on trial March if

Wine's potential health benefits may be touted on bettles under a rule change to be amounced today. The ATP also wants to be alcohol containers that look like soft drinks or freeen desserts. (Article on Page A00000 A suit against gan makers went to a

A suit against gun makers went to a federal jury in Brosklyn, N.Y. The case, closely watched by the industry, seeking, held 25 firms liable for seven shootings with litegal handguns. (Article on Page B6)

A giant Russian space mirror failed to deploy, but Mir commonants are to try again. The 83-feet disk is supposed to lest whether the sun's rays can be supposed to felly light took northern cities during winter months.

dark northern cities during winter months.
Plute will retain its designation as a planet, the International Astronomical Unjon and. The announcement should calm arguments over numored plans to demote its possibly to a "trans-Neptunian object."

A mortally ill King Bussein flew home and aides said he wishes to die ill Jordan-Barlier at the Mayo Clinic, where he was treated for cancer, his doctor offered a grim prognosis. The family gathered in Armanh?

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How Enron Turned Around Its Fortunes in India

Continued Pross First Page president of global finance, had admitted to corruption by telling the U.S. Congress that Enron had spent \$20 million educating Indians. But she was referring to money spent on development costs and legal expenses, a ciartification Euron had already given Maharashtra before the suit was filed.

A chastened, Earon began trying to

mend fonces with the nationalists, with the backing of Washington and U.S. Ambas-sador to India Frank Wisner. Ms. Mark launched a campaign of shuttle diplomacy between Houston and Bombay, the capital Maharashtra state.

In a crucial move, she managed to develop a rapport with Shiv Sena boss Bal Thackersy. Besides being an archaetionalist And Bombay power broker, Mr. Thackerny is a former cartoonist. Knowing of his fordness The former carbonist. Rabowing of his toruness, for Wall Disney, Ms. Mark gove him a video-stape of Disney's "Bleeping Beauty."

Enron also made some potent duitural

curtsies to India. An Indian businessman, a sympothetic adversary of Ms. Mark's, "urged her to begin wearing Indian clothes." She did so, hanging up her short Western skirts and donning flowing saluar kkameers and Indian jeweiry.

"It was noticed by my friends, and the grees," Ms. Mark says, "Then it was taken ras a compliment.

The Indian side, boo, was learning. Attacking Euron had helped the national gain power, but once they got it, they needed to show they could steer the economy of Bombay, India's commercial capi-dal. The BJP had ambitions of ruling all inidia, and so moderate nationalists decided they had to find a face-saving way to revise Dubhol. Not long after canceling the plant, members of the Indian political coalition 'said to us, 'You know why we had to do what we did,' recalls a Dabhol executive.

Talks on possible revival of the project opened in Bombay in the fall of 1996. "It started out really tough and aggressive," says Mr. Sution, Enron's lead negotiator. We were at each other's throats.

A Better Climate

But by this time, both sides were open to compromise. For the Indians, one goal was to restore india's credibility with forleign investors. They still fait Erron had too sweet a deal, though, so they sought to exstract concessions on the larger, second stage of the project, whose contract wasn't single of the project, whose contract was a prigned, according to a member of the In-dian team. They hoped that would achieve the broader alm of setting a precedent for chapper rates in officer private power deals im India, says the Indian negotiator.

In late 1995, a deal was struck. The nationalists claimed victory: Euron cut pro-Ject costs by \$300 million. It also reduced by 22% the electricity rates that it would charge, company officials in indis say. And Enron sold the state a 30% stake in the first phase of the project at a discount. (Enron now has a 50% share, while Bechiel Enterprises Inc. and General Electric Co.'s (GB Capital Corp. own 10% each.)

Encon won, too. It got a commitment for Dabhol's second phase and enlarged the project to 2,650 megawatts from 2,015. Economies of scale and a steep drop in tur-

e Marsyring



hine prices meant that Enron didn't conmuch on the bottom line. Initially, Dabhol will sell power to Maharashtra for about seven cents a kilowatt-hour, which is less then several existing Indian suppliers get but about double the price of electricity in the ILS.

Much of the public opposition to the plant subsided after the nationalists gave it their blessing. Euron called off the arbi-

tration, and Maharashtra dropped its suit. But Enron wasn't out of the woods. A eneral election and two changes of the national government meant that it took a year to get approvals for the new deal. And the project faced one final lawauit, when a Marxist trade union challenged Maharash tra's decision.

The nationalists, flip-flopping to defend the project, admitted that their court action against Euron had been a burgaining tactic. The corruption allegations, the state added, stemmed from groundless media reports and a misunderstanding of the congressional tes-timony by Euron's Ms. Powers. The court disinissed the trade union's case on Dec. 2, 1996.

New financing was signed within a week, and construction resumed.

Meantime, Baron had set about ce-Meantime, sarron has set account or menting its political gains, To head Dab-, hol, Ms. Mark prohested Sarday Blieffel gar, a Harvard-criticaled findian. He made public relations more local, putting on his letterhead a motto-tailored to lindia's populial desperance. "header to the nearle."

lettermend a motto-tailored to imms a populist democracy, "power to the people."

To promote this new image, Euron cultivated journalists and started a newsletter that it sent to 2,000 policy makers and editors. It publicized Euron's health and education activities and the plant's environmental automorphis. ronmental safeguards.

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and the cost

Enron's behalf. But Enron knew its image problems were largely over by July 1997, when it ran newspaper ads for 45 technical

when it ran newspaper ads for 45 bechnical jobs at Debbet and get 18,000 applications. Other snags crupped up last year, though, One was the global economic turmoil, which dashed, for new, Encon's plan to sell liquefied natural gas to the plant from Enron-developed gas fields in Qatar. The plant's second stage will use LNG, which is cheaper and cleaner than the naphtha to be burned in the first power unit. Enron has since lined up gas supplies from Oman.

Another threat was Indig's test of no-

Another threat was India's test of au-clear weapons in May. It was a prevocative move by the Hindu-nationalist BJP, which had reached its goal of forming a national government. In response, the U.S. imposed sanctions on India, scutting U.S. Export-Import Bank loans for Dabbol's expansion. It took a month to arrange new credit.

Now that the plant is about to open, Mr. Wisner calls it a watershed for the country. This one will stand out in the history of india's modernization... India's opening its marketpiace to foreign capital," says the for-mer ambassador, who is new a director of Erron's majority-award Erron Off & Gas and advises CMS Energy Corp. of Deartorn, Mich., which is also a large investor in India. New Policies

Learning from the Encon experience, India has changed the way it does bustness. To avoid the politics that enanared Enron, New Dethi site beeks bids for power projects instead of privately negotiating them. And on deals height and order, indian policy makers have trimmed financial guarantees to investors. In addition, state governments have begun squeezing devel-opers for lower electricity rules. One frusopers for lower electricity rates. One frus-trained American power executive factors makes that the post-Dabhol schinges' shawed 10 percentage points off his pend-ing project's annual return on investment. Not everything is going Enron's way in' India. Two other Enron power projects are stank over finance.

initi. Two other Enros power projects are stuck over finances. The company is dogged by sliegations that security officers on its sayroil and local police have committed noman rights, violations, charges, that Enros calls hateless. In December, the company missed did on a new. \$1.5 billion power-plant project, losing to a conservium led by CMS. Could Enros have imade life easier for itself from the optical's 50ths competitions.

Could Sures have made life easier for itself from the outself Softe compelitors think st. 'When Enroi pol started, they had so indian partners, I think that hart them They had no hotterfown person rooting for them.' Solve Chall Challenan and CEO William McCormick. 2

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Green Agenda

Enron planted more than 100,000 trees on the site's rocky barren bluff; aracias how blanket the slopes and help deter erosion. In 1996, Earon gave CARE, the U.S., relief agency, \$500,000 for development, programs near Dabbol. The money flower is granted with the slopes and belief agency agency. Soulded be seen as a serious straint of villages.

The public reliations faittle isn't come. Here provided a fair greath aren't granted with the sould belief agency won. The four villages adjacent to the reliability of the sould be seen as a serious granted with the sould be seen as a serious granted with the sould be seen as a serious granted with the sould be seen as a serious granted when the sould be seen as a serious granted with the sould be seen as a serious granted with the sould be seen as a serious granted when the sould be seen as a serious granted when the sould be seen as a serious granted with the sould be seen and
DABHOL POWER AT A GLANCE

Phase 1 (740 megos commissioned 1999

ready mid-2001

Phase 2 (1444 megawatta)

Fuel: Liquified natural gas

Approximate cost: \$3 billion

Shareholders: Eriron, Bechtel

Enterprises, General Bectric, MSEB

India

Endgame for Enron?

By Joanna Slater

In India, the mere mention of Enron's name is enough to start a heated discussion on the promise and peril of foreign investment, the venality of politicians and the extent of multinational greed. Now the nine-year-old debate is once again back in the headlines—and this time, it looks headed for a final reckoning.

On May 19, the American energy giant took the first step toward extricating itself from its controversial project, a 2,184-New Delhi o megawatt power plant that is India's largest foreign investment to date. The plant, known as Dabhol Power, issued a preliminary notice to terminate its contract with the Maharashtra State Electricity Board, its sole customer. It's a move that comes after months of increasing tension between Enron on the one hand and the MSEB and state government on the other. With that step, the parties have six months to iron out their differences before the deal is scrapped.

Settling the dispute is critical, because it could be a very ugly divorce. Down that path lie protracted legal battles and potentially huge penalties owed to Enron. What's more, that process wouldn't address the key issue: How can Enron's plant become a productive and cost-effective part of country's power system? That question is all the more important because while the first phase of the project, at 7,40 megawatts, is already operational, the mammoth second stage—totalling 1,444 megawatts—will be ready later this summer.

However, the current climate of claim and counterclaim will make renegotiating the contract difficult. One prior payment dispute is already headed for arbitration, while Enron has declared that the political environment makes it impossible to proceed. It's certainly true that politics is complicating the process: Rather than a commercial dispute between two parties, there's a slew of players that includes two coalition governments (one state, one federal) and a clutch of Indian financial institutions that could be stuck with huge liabilities if the project goes sour.

Despite the present impasse, "both parties know they are going to renegotiate," says Rajendra Pachauri, an energy expert and a member of the government committee appointed to examine the issue. "I'm sure a lot of this is shadow-boxing." Both Enron and the MSEB want out of the current arrangement, albeit under very different circumstances. On the one hand, Enron's new global strategy is to trade commodities like power, rather than invest billions to produce it (the Dabhol plant cost about \$3 billion; Enron holds a 65% stake).

On the other hand, the MSEB says that Enron charges too much for its power and is driving the utility into bankruptcy. In the year to March 2000, it posted losses of 16.8 billion rupees (\$365 million). One thread of the current stalemate began when the MSEB started defaulting on its payments to Enron at the end of last year. Then the MSEB slapped Enron with a 4 billion rupee penalty for alleged delays in providing power.

The roots of the problems go far back. One of the more detailed dissections of the debacle came out in mid-April, when the government-appointed Godbole Committee delivered its conclusions on how to revive the project. The report details the flaws of a venture it asserts was always too big and too expensive for the state of Maharashtra to handle. One passage delicately describes how "numerous infirmities" in the approvals process "bring into question the propriety" of those decisions.

Because of the tariff structure, power from Enron's plant is indeed more expensive than electricity from other sources. To a certain extent, however, that was anticipated. What wasn't expected was the impact fluctuating fuel prices and exchange rates would have on the price of power. Initially the first phase relied on naphtha, while hereafter both phases will use liquefied natural gas.

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Recently the power price rose beyond what the MSEB could charge for it. According to the Godbole report, the average price paid by the MSEB for Dabhol's power from May 1999 to December 2000 was 4.67 rupees per unit—but the maximum rate it could charge to a certain slice of its customers was 4.63 rupees a unit. And under the contract, the MSEB was bound to pay for a fixed quantum of power generated every month.

Tackling the price of power is the starting point for any renegotiation effort. Experts suggest that by lowering the fixed costs in the project—from the terms of the gas-supply contract to the interest rates on certain loans—a reduction in the tariff is possible. In a statement, Enron said it was open to ideas but rejected the Godbole report as a basis for discussions. Outside estimates of the project's profit margin range from 25%-39%, which the report suggests reducing to a more modest 16%. If the two sides don't soon reach a compromise, Enron could become the symbol of an increasingly bitter—and avoidable—dispute.

Stewart, Elizabeth K.

From:

Rao, Geetha

Sent:

To:

Wednesday, January 24, 2001 9:23 AM Sampliner, Gary; Grewe, Maureen; Mills, Marshall; Christopulos, Greg; Clapp, Gene; Stewart,

Elizabeth K.

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Enron update.doc

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Enron puts pipeline project on back-burner

Bodhisatva Ganguli

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According to sources familiar with events, around 15 employees associated with MetGas, the Enron subsidiary which was to operate the LNG terminal and pipeline and market the LNG, were informed on Saturday that their services would no longer be required. Only a small team has been kept in place. In response to a query from ET, a statement from Enron said that an "internal reorganisation" had been carried out. "We have made an internal reorganisation of some personnel who were working on developing the MetGas project. A small core team will continue to develop this project and explore opportunities in India's gas sector. The impacted employees are being redeployed both within and outside the company", the statement said.

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This involves paying compensation to landowners through whose land the pipeline will pass and a host of other clearances.

The personnel who had been asked to put in their papers were associated with the land survey and other aspects of the pipeline project. The pipeline was supposed to supply LNG to industries in Maharashtra and Gujarat.

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The remaining three million tonnes, which is to be sourced from Malaysia, was to have been transported via pipeline and marketed to industries in Maharashtra and Gujarat. This part of the project seems to have put on the back-burner. The total pipeline length is in the region of 400 km.

The LNG terminal and the power plant itself is almost 80 per cent complete. However if the pipeline is delayed or does not get built it is not clear how the entire LNG facility will be used.

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Govt to help MSEB pay DPC Nov bill

Archana Chaudhary MUMBAI, Jan. 23

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Sanjay Bhatnagar quits Enron

MUMBAI: Former chairman and CEO of Enron India Sanjay Bhatnagar, who was moved to Singapore to head the mulitnational's broadband services in Asia, has resigned. Bhatnagar, who was involved with the 2,014 mw Dabhol power project, put in his papers last week and his resignation has since been accepted.

Bhatnagar, who is at present in the US, was last month posted as CEO of Enron Broadband Service in Asia based at Singpaore with effect from January 1 this year.

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A company spokesman said he had been transferred over to another of Enron's businesses several months ago, so the transition at Enron India has already been accomplished.

"We have a strong management team at Enron India and have every confidence in their continuing ability to manage the business effectively".

Bhatnagar is the third high official to quit Enron within the last six months. The first to quit was Rebecca Mark, former CEO and chairman of Enron International, followed by Joseph Sutton, who took over from her. (PTI)

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Cabinet clears hike in Enron's Dhabol stake

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THE CABINET Committee on Economic Affairs on Wednesday permitted US power company Enron to pick up an additional 30 per cent stake in the Dhabol Power Project Phase-II for \$685.75 million in the wake of MSEB's inability to take its equity share, parliamentary affairs minister Pramod Mahajan said.

This enhances Enron Development's equity investment from \$886.9 million to \$1119.9 million in the project.

In this foreign equity participation of Enron, \$434.2 million would be for Phase I of the power project and \$685.75 million would be for Phase II, he said.

Enron presently has a 50 per cent stake in the \$1.87 billion Dhabol Phase II, while the remaining is with Bechtel Enterprise and General Electric.

As per the decision MSEB would have the option to pick up the 30 per equity at a later stage at a mutually agreed price, he said.

With the enhancement of the equity of Enron, the share of MSEB holding has been ditluted to below 30 per cent.

Mahajan said the government had earlier allowed Enron to invest up to 100 per cent but under the renegotiated agreement it was decided that MSEB would pick up 30 per cent stake in both Phase I and Phase II of the power project.

While MSEB picked up 30 per cent stake in Phase I it has expressed its inability to do so for Phase II.

The foreign equity of \$1119.9 million will be contributed through Enron Mauritius, a wholly-owned subsidiary of Enron International.

Enron was issued an approval to set up, own and operate a natural gas fired combined cycle power station with a capacity of 1920 mw expandable to 2550 mw.

Enron is setting up \$2.8 billion 2,184-mw plant in two phases, the second phase is still under

construction along with a \$494 million LNG gasification unit (also under installation).

MSEB has taken a 30 per cent share in Phase-I, where Enron has a 50 per cent stake and General Electric and Bechtel hold a 10 per cent stake each.

While the first phase uses naphtha as feed stock, the entire project will shift to liquefied natural gas once the second phase is commissioned by December end.

Enron, which is setting up a five million tonne LNG import terminal at Dhabol, would import about two million tonnes of LNG for the power plant from Middle-East for the project. - PTI

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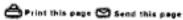
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Tuesday Jan 23 2001 Updated 0043 hrs IST 1413 EST



Enron ordered to compensate villagers with Rs 78I

Our Bureau MUMBAI

THE BOMBAY High Court ordered Enron to deposit Rs 78 lakh within seven days to compensate the villagers whose land was acquired by the company for the project.

Justice R M Lodha on Monday directed the company to deposit Rs 18 lakhs with the collector, Ratnagire, and Rs 60 lakh with the special land acquisition officer, Chiplun in a weeks time.

The collector and special land acquisition officer have been asked to issue a public notice and hand out the compensation within three months.

The court also directed the collector and the SLAO to refund the unclaimed amounts to DPC after a period of three months from the date of public notice.

The court also directed that the deposited amounts would be kept with a nationalised bank and would be refunded with interest earned on it. A press release issued by DPC claimed that the court has not found any contempt of court.

The High Court's order came while disposing of a petition by the Anjanvel Gramasth Mandal, (Anjanvel Residents Association) alleging contempt by Dabhol Power Company of the High Court's directives issued in previous writ petitions. These directives required DPC to allot 200 jobs or pay Rs one lakh to landholders affected by DPC.

DPC was also required to make ex-gratia payments to those affected by the DPC projects, depending on the extent of their land holding.

DPC argued that jobs had been given or compensation paid to 182 of 200 families eligible for jobs or compensation on the basis of guidelines prescribed by the Court.

"Despite the best of efforts made by DPC to compensate the remaining 18 eligible families, these families had not come forward with the necessary inheritance and legal heirship certificates", claimed the company.

DPC also claimed that 50 per cent of landholders has not come forward to claim compensation. According to the mandal, however, 18 persons were still awaiting the employment from the company.

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- Printografik in strategic deal with CheckPoint
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The company offered to pay Rs 1,00,000 lakh in compensation or jobs to the 18 affected families and pay deposit the compensation payable to the land owners with the land acquisition officer. However, this package which was not accepted by the villagers.

"This is major victory for us as for the last seven years they were refusing to pay farmers for their land," said the spokesman of the villagers committee. "The decision is in the interest of the company as the issue gets settled for once and all", said the DPC spokesman.

compensate villagers with Rs 78

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Tuesday Jan 23 2001 Updated 1930 hrs IST 0900 EST



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IPPs should take risks not demand quarantees: Mehta

MUMBAI

THE GOVERNMENT said on Tuesday "instead of relying on the state for provision of guarantees, independent power producers should take the risk of direct investments in other projects".

"The IPPs demand escrows and guarantees from the state as well as the Centre. So if they want to be helped by the government, IPPs could also pour money in form of investments in several public sector undertakings," Union minister of state for power Jayawantiben Mehta said at a seminar on "role of IPPs in the India's power sector" here.

She said IPPs "must realise their responsibility and more investments in the sector would lead to cheaper cost of electricity".

The minister added IPPs were not sourcing their finances from abroad but instead putting the burden on Indian institutions.

"Their construction margins are also very high, which later translates in an increased tariff," Mehta said, adding the central and state electricity regulatory commissions should pay attention to the tariff margins put up by the IPPs.

'The financial health of state electricity boards will improve if IPPs and investors invest in them," she hoped.

Mehta said the government had made investment in the power sector easier by providing an automatic approval up to 40 per cent to the financial institutions.

Referring to the proposed Electricity Bill, she said the Centre's mega power policy would allow IPPs to import its required machinery. - PTI

- IPPs should take risks not demand guarantees: Mehta
- Vajpayee to visit Japan In February
- Celeste meets Maharashtra CM on Enron crisis
- Kashmir ceasefire extended by one month

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Celeste meets Maharashtra CM on Enron crisis

MUMBAI

THE OUTGOING US ambassador to India Richard Celeste on Tuesday met Maharashtra chief minister Vilasrao Deshmukh and discussed the status of the controversial Enron power project in the state.

During the meeting, which lasted for 45 minutes, the chief minister explained to Celeste the financial burden cast on the Maharashtra State Electricity Board on account of purchase of power from Dabhol Power Company, the subsidiary of Enron set up in coastal Konkan, official sources said.

Celeste described the Maharashtra government's decision to set up a committee of experts to review the project as a 'positive' step and hoped that it would lead to a favourable outcome as the issue involved foreign investment in India.

Deshmukh told Celeste that the state government would be approaching the Centre to 'lighten its heavy financial burden' after the review committee came out with 'concrete proposals'.

Celeste said the issue was an important one and hoped it would be sorted out soon. "Every crisis is an opportunity," he was quoted as saying.

Deshmukh said the review committee was expected to be set up within 'a day or two'.

The MSEB officials present at the meeting explained the financial burden suffered by the board owing to power purchase agreement reached with DPC for the first phase of the project.

MSEB's current dues to DPC are to the tune of Rs 240 crore for November and December 2000. - PTI

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This enhances Enron Development's equity investment from \$886.9 million to \$1119.9 million in the project.

In this foreign equity participation of Enron, \$434.2 million would be for Phase I of the power project and \$685.75 million would be for Phase II, he said.

Enron presently has a 50 per cent stake in the \$1.87 billion Dhabol Phase II, while the remaining is with Bechtel Enterprise and General Electric.

As per the decision MSEB would have the option to pick up the 30 per equity at a later stage at a mutually agreed price, he said.

With the enhancement of the equity of Enron, the share of MSEB holding has been ditluted to below 30 per cent.

Mahajan said the government had earlier allowed Enron to invest up to 100 per cent but under the renegotiated agreement it was decided that MSEB would pick up 30 per cent stake in both Phase I and Phase II of the power project.

While MSEB picked up 30 per cent stake in Phase I it has expressed its inability to do so for Phase II.

The foreign equity of \$1119.9 million will be contributed through Enron Mauritius, a wholly-owned subsidiary of Enron International.

Enron was issued an approval to set up, own and operate a natural gas fired combined cycle power station with a capacity of 1920 mw expandable to 2550 mw.

Enron is setting up \$2.8 billion 2,184-mw plant in two phases, the second phase is still under

construction along with a \$494 million LNG gasification unit (also under installation).

MSEB has taken a 30 per cent share in Phase-I, where Enron has a 50 per cent stake and General Electric and Bechtel hold a 10 per cent stake each.

While the first phase uses naphtha as feed stock, the entire project will shift to liquefied natural gas once the second phase is commissioned by December end.

Enron, which is setting up a five million tonne LNG import terminal at Dhabol, would import about two million tonnes of LNG for the power plant from Middle-East for the project. - PTI

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Davis, Michele

From:

Bradshaw, Tara

Sent:

Tuesday, January 15, 2002 8:21 PM

To:

Davis, Michele

Subject:

FW: Senate Hearing on Enron-Related Pension Issues

FYL

----Original Message-----

From:

Sweetnam, Bill Jr.

Sent:

Tuesday, January 15, 2002 8:20 PM

To:

Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Young, JT; Bradshaw, Tara; Bair, Sheila; McCall, Neat;

DeMarco, Edward

Subject:

Senate Hearing on Enron-Related Pension Issues

I have heard, second hand, that Sen. Kennedy will schedule a hearing on February 7 to discuss the pension issues surrounding Enron. He will have a government panel and will ask for testimony from DOL and Office of Tax Policy. He will also have a victims panel and a panel of academic experts.

William F. Sweetnam, Jr. Benefits Tax Counsel Office of Tax Policy Treasury Department 1500 Pennsylvania Avenue NW Washington DC 20220

Phone: 202-622-0170 Fax: 202-622-0646

Nichols, Robert

From:

Nichols, Robert

Sent:

Thursday, November 01, 2001 4:52 PM

To:

'Kent Knutson (LCA)'

Subject:

RE: US Stock rally on Microsoft news

love it

go jordan!

Rob Nichols Deputy Assistant Secretary for Public Affairs Department of the Treasury (202) 622-2910

----Original Message-----

From: Kent Knutson (LCA) [mailto:kentk@microsoft.com]

Sent: Thursday, November 01, 2001 4:02 PM

To: robert.nichols@do.treas.gov

Subject: US Stock rally on Microsoft news

Importance: High

U.S. stocks rally, Street looks past economic data

November 01, 2001 3:10:00 PM ET

(Updates to late afternoon, new byline)

By Haitham Haddadin

NEW YORK, Nov 1 (Reuters) - Stocks held sizable gains in late afternoon trading on Thursday as hope that a resolution is in sight for the landmark antitrust case against software giant Microsoft Corp. (MSFT http://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:MSFT) outweighed dismal news about the economy.

Investors kept up hope for an economic rebound in 2002 despite the grim data. The manufacturing sector sank deeper into recession in October as the Sept. 11 attacks thwarted efforts by factories to climb out of a 15-month slump, an industry report said. Also, the government said consumer spending fell at the fastest pace in more than 14 years in September.

"The market has held up pretty well in the face of all this terrible data as they pin hopes on a rebound in 2002 based on all the monetary and fiscal stimulus," said Jeff Kleintop, chief investment strategist at PNC Advisors, which manages \$60 billion.

Microsoft's tentative settlement on the antitrust case against it wended its way among top government officials ahead of a court-imposed deadline on Friday and helped buoy the market. The Dow component and Nasdaq heavyweight tacked on a gain of \$3.34 at \$61.49 and helped sent sectoral stocks higher.

U.S. 30-year Treasury bonds leapt higher, adding to a record-smashing gain in the previous session as a weak manufacturing report and an end to the U.S. government's issuance of the long-term bond sent investors scrambling to buy the notes.

"The biggest factor involving things is what happened with the cancellation of the 30-year bond auction. That I think is a catalyst and it's going to provide some economic stimulus because it is lowering mortgage rates as we speak," Michael Strauss, managing director/senior economist at Commonfund, which manages \$26 billion.

The drop in interest rates will also be a plus for corporations that borrow billions of dollars to run their operations, which is also a plus for their stocks.

"I think that that in turn may be providing some of the stimulus to the equity market in the sense that if consumers have lower debt service payments to their mortgages, may be it gives them a little bit more of discretionary spending money to spend in general on the economy," Strauss added.

The Dow Jones industrial average surged 163.99 points, or 1.81 percent, to 9,239.13. The broader Standard & Poor's 500 Index was up 20.54 points, or 1.94 percent, at 1,080.32. The technology-laced Nasdaq Composite Index gained 44.86 points, or 2.65 percent, at 1,735.06.

Microsoft contributed a hefty chunk of the Dow's rise and other tech stocks. The S&P software index rose 5.3 percent, reflecting gains in other software companies such as PeopleSoft Inc (PSET http://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:PSET), up \$2.44 to \$32.21 and Veritas Software (VRTS http://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:VRTS), up \$2.77 to \$31.15.

"The news on Microsoft helped and that dragged all software companies with it," said Tony Spare, chief executive office of Spare Value First.

Network computer maker Sun Microsystems Inc. (<u>SUNW</u>
<http://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:SUNW>) rose 71 cents to \$10.88, or 7 percent. Its chief executive said the company can survive a few years of economic turmoil if necessary, saying war and recession left the future unclear.

Investors are still waiting for Friday's key reading on unemployment in October.

A government reported jobless claims rose by 55,000 to 3.69 million for the week ended Oct. 20. That was the highest level since 3.70 million claims were recorded for the week ended May 21, 1983 and likely sets the stage for a grim October unemployment report on Friday.

Economists are forecasting that report, due at 8:30 a.m. (1330 GMT), that companies shed 289,000 jobs last month, driving the unemployment rate up to 5.2 percent from 4.9 percent.

Intel Corp. (INTC Intel Corp. (INTC Intel Corp. (INTC") Intel Corp. (I

Chip sales sank more than 44 percent in September versus same year-ago period, according to the Semiconductor Industry Association. But the association expects sales during the last three months of the year to improve over the quarter ended in September.

International Business Machines Corp. (IBM ">http://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">http://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US:IBM>">https://news.moneycentral.msn.com/inc/news/quoteredir.asp?symbol=US

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MEET THE PRESS

Transcript for January 6

Read the complete transcript of our Sunday, January 6, program

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NBC News

MEET THE PRESS

Sunday, January 6, 2002

GUESTS: PAUL O'NEILL

Treasury Secretary

Senator JOHN McCAIN, (R-Ariz.)

Senator JOSEPH LIEBERMAN, (D-Conn.)

HAMID KARZAI

Interim Afghan Prime Minister

MODERATOR/PANELIST: Tim Russert - NBC News

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MEET THE PRESS - NBC NEWS (202)885-4598

(Sundays: (202)885-4200)

MR. TIM RUSSERT: Our issues this Sunday:

(Videotape):

PRESIDENT GEORGE W. BUSH: And I challenge their economics when they say raising taxes will help the country recover. Not over my dead body will they raise your taxes.

Unidentified Man: Yeah!

(End videotape)

http://www.msnbc.com/news/682166.asp?0dm=C227V

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1/18/02

MR. RUSSERT: President Bush confronts battles on two fronts: a war against terrorism in Afghanistan and an economic recession in America. When and how will the Bush administration turn this economy around? With us: the secretary of the Treasury, Paul O'Neill.

Then: In Afghanistan, an American soldier shot dead, and Osama bin Laden still on the loose. With us:

The new leader of Afghanistan, interim Prime Minister Hamid Karzai.

Then: A report from two senators on the ground in Central Asia, Democrat Joe Lieberman, Republican John McCain.

But first: The economy and with us now, the secretary of Treasury, Paul O'Neill.

Mr. Secretary, welcome.

SEC'Y PAUL O'NEILL: Thank you.

MR. RUSSERT: How bad is this recession?

SEC'Y O'NEILL: Well, by a measure of the previous recessions, it's not nearly as bad as some that we've had. And I think we're beginning to see the signs of improvement coming along. And the unemployment data that was released the other day; I noticed that the hours of work went up a little bit.

And that's a good sign, because as hours of work go up in the manufacturing sector, for example, it means eventually, employers will start adding more people to the payroll. And that's a really important thing. We need to get people back to work in this economy.

MR. RUSSERT: When do you think we'll be out of the recession?

SEC'Y O'NEILL: Well, I don't know. I think sooner is obviously better than later. And it's the reason the president has said we need to take out an insurance policy and make sure that we've done the things that are possible to do. And it's why back in October, on the 4th of October, he advocated that we should do something to improve economic security by helping people who have been dislocated by the terrorist events and by the slowdown in the economy. And it's why we're very hopeful. And as the president said over and over again yesterday, he wants to work with the Congress in a nonpartisan way to put an economic security program in place so that we can get this economy moving again.

MR. RUSSERT: When you were last here in March—and let me put it on the screen for you and our viewers—I asked you specifically, "Are we in a recession?" O'Neill: "No." "Are we headed for one?"

O'Neill: "I don't think we know yet." Every bit of evidence now indicates the recession began in March, and you missed it.

SEC'Y O'NEILL: Well, you know, it's an interesting comment.

When the National Bureau of Economic Affairs indicated they thought we had a recession and they dated it back to March, they said, "If not for the terrorist events, we don't think we'd be in a recession," and in fact, by a classical definition of recession, so far, we've had one quarter of negative growth. We're probably going to have one as we get the fourthquarter data.

But I think most economists who look at data would say until the terrorist events of September the 11, we were not in a recession. Now, we're obviously in a slow economic period. And, again, the president says we need to get this economy moving quickly, and it's why he's been advocating that the Congress act. The House did. The Senate chose not to act before they went home for Christmas. We're very hopeful after hearing from their constituents at home they're going to come back and work with us, and we're going to get something done very quickly.

MR. RUSSERT: But a year ago December, Vice President-elect Cheney was on this program. He said we're on the front edge of a recession.

SEC'Y O'NEILL: He did.

MR. RUSSERT: You come on in March and say, "No, we're not."

Those mixed signals then may send the wrong signal to the economic resources and engines that drive this economy.

SEC'Y O'NEILL: Well, I tell you, I think having been out there in the private sector for 25 years and worked in the real economy where people make real goods and provide real services, the thing that we went through, through 2001, that was a slowdown related to a change in level of demand for telecommunications industry, and the dot-com industry falling apart made a big difference. And, you know, I said in March I didn't think we were yet in a recession. I thought we were slowed down. And it's exactly what the vice president said. We were on the fore leading edge of a recession. We need to be concerned about it.

And to the president's credit, we got a tax cut through that—without that tax cut, which began to take effect in August, I think we would have seen a much sharper recession than the one that we've had. The president said, "Let's do something now that's within our capability to speed up the recovery from recession." Again, we're very hopeful the Congress will come back with instructions from their constituents to cooperate with the president; get this done.

MR. RUSSERT: The front page of today's New York Times, "Huge declines seen in budget surplus over the next decade." When the tax cut was debated, there were projections of a \$5 trillion surplus over the next 10 years. That has declined dramatically, almost by two-thirds. Senator Tom Daschle on Friday, the leader of the Democrats in the Senate, spoke to the country. And this is what he had to say.

(Videotape, January 4, 2002)

SEN. TOM DASCHLE, (D-SD): But September 11 and the war

aren't the only reasons the surplus is nearly gone. They're not even the biggest reason. The biggest reason is the tax cut.

(End videotape)

MR. RUSSERT: Is that correct?

SEC'Y O'NEILL: Well, you know, it's strange economics, because the suggestion in what the senator says is that we should have raised taxes? It doesn't make very much sense to me, to tell you the truth, to entertain the notion that we can help our economy by raising taxes. It makes no sense at all. The fact is...

MR. RUSSERT: But what he said is two-thirds of the surplus is gone and it's not because of the war.

It's not because of the recession. The projected surplus is gone because of the Bush tax cut. Is that accurate?

SEC'Y O'NEILL: I think not, in this sense. If you look at the numbers for this year, about 25 percent of the reduction in the forecast surplus that was forecast at that time last year is a consequence of the tax reduction. Thank goodness we did it, because it helped to provide some stimulus to the economy. The other two-thirds is related to the \$60 billion that everyone agreed we should provide in the wake of September the 11 for New York City and for immediate defense needs. And the rest of it is a consequence of the slowdown in the economy. So to say...

MR. RUSSERT: But that's...

SEC'Y O'NEILL: Tim, but to say that the tax cut had anything to do with numbers the senator is suggesting is simply not true.

MR. RUSSERT: But you're just taking this one year. What he's talking about is the 10-year projection and the out years of the tax cut that are about to take place according to every objective estimate that I have analyzed or seen estimates that about 60 to 70 percent of the surplus will be taken up by the tax cut.

SEC'Y O'NEILL: I think those numbers are just not credible. And I would say one other thing. I think people who believe as a religion in 10-year numbers haven't lived in the real economy. If you ask me, what's likely to happen in the next 12 months, I can give you a fairly clear estimate of what I think will happen. If you ask me what's going to happen five years from now, let me ask you: Would you have forecast even a year ago that we would have September 11? I think not. Would you have forecast two years ago the economic circumstance we have now? I think not. And so to make a big deal out of 10 years seems to me to be a false idea, and it's more appropriate, it does seem to me, to pay attention to the reality of the here and now.

Right now we have a slow economy. The president said, "Let's do something about it that's within our capacity to do." We think we ought to do that. We ought to do it in a nonpartisan way, the same way the Congress has cooperated with the president in prosecuting the war on terrorism. We need to do the same thing about our economy. And the president said, "We shouldn't be looking to assess blame. We should be doing the things that are necessary to do and sharing the credit for doing it."

MR. RUSSERT: Let me listen to more of Senator Daschle, and this is his concern about the tax cut:

(Videotape):

SEN. DASCHLE: But the Republican agenda in Washington today is being written by a wing of the Republican Party that isn't interested in fiscal discipline. They have one unchanging, unyielding solution that they offer for every problem: tax cuts that go disproportionately to the most affluent.

(End videotape)

MR. RUSSERT: Would you consider not raising taxes, but rather postponing or implementing the tax cut in out years in order to make sure the budget is balanced?

SEC'Y O'NEILL: I don't know why we would want to raise taxes, Tim. It just doesn't make any sense to me.

MR. RUSSERT: No, I was very careful. I said not raise taxes, rather, implement a future tax cut.

Keep taxes at their current level. Not raise them. Not cut them.

SEC'Y O'NEILL: That's basically saying rescinding the tax cuts that were passed by the Congress; doesn't make any sense to me. I think the American people are relying on the tax system that was agreed to and signed with a great credit claim by everyone back in June and to now tell the American people we're going to raise your taxes prospectively doesn't make very good economic sense. And I think it's the reason why, frankly, the senator didn't suggest it.

MR. RUSSERT: Well, Senator Lieberman, who we'll talk to later on in our program, has said this morning everything should be on the table, that if you truly want to have a bipartisan discussion, then you have to include discussing rescinding or postponing the tax cut. Would that be on the table in this bipartisan spirit you're talking about?

SEC'Y O'NEILL: I have not seen anyone say they want to raise taxes and I suppose that there may be some people who want to raise taxes. The president said in really vivid language yesterday not while he's around are we going to see an increase in people's taxes.

MR. RUSSERT: So if that's off the table, postponing the tax cut, then how can you say this is a bipartisan, open negotiation?

SEC'Y O'NEILL: Well, I think, you know, again, I didn't see Senator Daschle saying that he wanted to amend the tax agreement that was enacted last year and, in fact, his proposals for stimulus or for economic security include tax provisions to help small businesses and individuals, which we all agree with. We were hung up at the end of last year over one issue and that was how to help people who lost their health insurance as a consequence of being dislocated by the terrorist events and by the economic slowdown, and what we proposed is we provide a tax credit to everyone dislocated by economic circumstances, to pay up to 60 percent of their health care costs. And what the senator and his compatriots are proposing is to give people—about half of the people under their scheme would get money through their former employers and the other half would be thrown to the vagaries of action by 50 state legislators, adding them to the Medicaid rolls, in effect, which we've never used Medicaid for this kind of population. It would be a wholly new entitlement with very uncertain circumstances.

The president said let's deal with every American fairly. Everyone who is dislocated should get the same access to money to help with their health insurance. That's a fundamental question, and we think we're on the right track and we think if the senator had permitted the legislation to come to the floor, a majority would have supported what we proposed.

MR. RUSSERT: Do you believe that Vice President Cheney is correct, that Senator Daschle's obstructionist?

SEC'Y O'NEILL: Well, I'll leave it to the vice president to make his own comments. My view is what the...

MR. RUSSERT: Do you agree with him or disagree with him?

SEC'Y O'NEILL: What the president has said, and I think the vice president said as well, we're here to do the American people's business. The president said yesterday he's of the American people first and foremost and party divisions are a secondary consideration. We don't want—we do not want to engage in partisan rhetoric. We want to do the business of the American people and we want to do it in an expeditious way.

MR. RUSSERT: Mr. Secretary, do you believe calling someone an obstructionist is partisan rhetoric?

SEC'Y O'NEILL: I don't-l guess I have to tell you, I didn't see exactly what the vice president said or when he said it. I'm speaking...

MR. RUSSERT: Vice President Cheney, on this program, said, "I'm sorry to say but I believe that Tom Daschle is behaving in an obstructionist way."

SEC'Y O'NEILL: I'm speaking for myself and, what I'm telling you is. I think we need to work together. The interest of the American people are overriding in what we should be doing, and it is critical that we get our economy running faster than it has been running. I think we will get there. But we can get there faster if we can get cooperation from the Senate and move legislation quickly to the president's desk.

MR. RUSSERT: All right. Let's cut to the chase, however. Will you

continue to press for the implementation of the tax cut if it means deficits or tapping into the Social Security trust fund?

SEC'Y O'NEILL: I think we have, as I've said, substantial agreement. For sure, we've got agreement in the House. They already passed what the president proposed. And I think we've got more than 50 votes in the Senate to pass what was agreed. And there's no difference, in fact, on the question of whether part of the economic security program ought to be tax reductions. The question is: How much of the economic security ought to be tax reductions? The senator signed—the senator and his conferees— have agreed that. And so it is really a question back to this health issue and, again, we believe we're on the right track because we would treat all Americans alike. They would not do that.

MR. RUSSERT: Yeah, we were talking about fiscal discipline and the country. There were large deficits. We finally brought our budget into surplus and now we're back into deficits. Are those deficits acceptable in order to help fund the Bush tax cut?

SEC'Y O'NEILL: I think when you have the kind of terrorist acts that we had and the slowdown in the economy that account for threequarters of the reduction in surpluses that we have in front of us, that...

MR. RUSSERT: In this one year, but in the other years...

SEC'Y O'NEILL: No, this is the year that counts. If you want to deal in the—you know, if you really want to deal in fantasies, I don't know why you stop with 10 years. Why don't you talk about 20 years or 30 years? We're living in the here and now. We need to deal with the here and now. We need to take the action that's necessary now. I don't hear anyone, including—the good senator, himself, has not called for raising taxes this year. I don't think we ought to raise taxes. On the contrary, we should enact what the president has called for, to speed up the recovery, because the way to have fiscal surpluses is to have an economy running at 3 1/2 percent real growth, and we will have enormous surpluses again in our future forecasts. That's what we need to do. We need to be the engine of growth for the world economy. That's the way to do it, Tim.

MR. RUSSERT: Let's look at what the Congressional Budget Office had to say about some of the plans:

"...the nonpartisan Congressional Budget Office gave poor grades to several of the president's proposals in a report...The report said several Democratic proposals had a better chance of reviving the economy at the lowest cost. It reserved its highest praise for a 'payroll tax holiday' advocated by Sen. Pete Domenici (R-N.M.). ...Two of the administration's main priorities—accelerating planned cuts in individual tax rates and repealing the corporate minimum tax—were rated by the CBO as offering little 'bang for the buck."

Based on the Congressional Budget Office, non-partisan, would you be willing to embrace Senator Domenici's idea of this holiday from the payroll tax where, for a month, the ordinary worker who pays 6.2 percent of their salary into a payroll tax would, in fact, get a \$500 bonanza in order to spend out of their pocket, use that Domenici plan and get rid of this alternative minimum tax for corporations or get rid of the planned cuts in the individual tax rates?

SEC'Y O'NEILL: At the end of December when we were very close to having an agreement, except for this issue about health care, the Domenici idea had been on the table, and it was looked at very carefully by the bipartisan group in the Senate, the so-called Centrist Coalition, and they decided in their wisdom that that was not the right thing to do. I don't know. We'll see when they come back if they've changed their mind about that. We indicated a willingness to look at that as a possible way of dealing with this, but again, at the end of December, the Centrist Coalition that would have given us 52 or 53 or maybe even 54 votes in the Senate decided that was not the right thing to do.

We're prepared to work with them. We need to do something quickly, and if we can concentrate on solving this health-care issue, where, again, I think we're on the right side of this issue because what we would do would treat every American dislocated by this economic slowdown and by terrorist events, they would all be treated equally. The Democrat plan would not do that. They would leave it to the circumstances of how employees had been associated with their employers in the past, and for 50 percent of the people, they would create a new entitlement as part of a Medicaid low-income health-care plan, and every individual would be treated differently depending on what state they lived in. We don't think that's the right thing to do, and we don't think the American people would support what's proposed on the other side if they really understood the option of being able to have access to the same tax credit without regard to circumstance.

MR. RUSSERT: Mr. Secretary, the last time there was a tax cut of this magnitude was under President Ronald Reagan, and within two years, he revisited the entire situation because he saw that record deficits were going to be created, and he had what was called a midcourse correction, driven in large part by fellow Republican Bob Dole. Would you be willing to step back and say this morning, "Deficits are going up, we are tapping into the Social Security Trust Fund, and the number of people on Social Security and Medicare is going to double within the next 20 years. Based on that in a bipartisan way, we ought to step back and examine and consider a midcourse correction"?

SEC'Y O'NEILL: I think what we need to do is this. We need to understand fundamental economics.

Surpluses at the federal level and the state level and the local level come from a robust economic activity.

And we need to create stability here in Washington so that our economy is operating at 3 percent or 3.5 percent real growth rate, and then we will have fiscal sanity. We will have lots of surpluses. We will have money to devote to high priority needs. That's what we need to do. An "eat your spinach" notion of, you know, if you want balance this year, the way to do it is either to get the economy going again or to presume we can't get the economy going and, therefore, we have to raise people's taxes. We don't believe raising people's taxes during an economic slowdown is an intelligent thing to do, and I don't think most

of the American people are in favor of raising taxes this year in order to have the nicety of an accountant's surplus. That's not where the American people are. It's not good economics.

MR. RUSSERT: So deficits don't matter?

SEC'Y O'NEILL: No, that's not what I said. What I said is the way to solve the deficit problem is to have a robust economic activity for the U.S. to be the economic engine of the world. And not only will we be better off and will we have surpluses but the world will be better off, and we'll begin to make some difference in the billions of people out there, who, as we were saying earlier, live on a dollar a day.

That's part of our obligation, too, and we're not going to get there by raising taxes.

MR. RUSSERT: Can we keep the Bush tax cut in place, increase defense spending, provide a prescription drug and other health benefit cost and not touch the Social Security Trust Fund and meet all future obligations on Social Security and Medicare—do all those things without a deficit?

SEC'Y O'NEILL: Well, you know, the numbers you were giving me earlier, while they suggest a reduction in the projected 10-year fiscal balance, still suggests we're going to have \$1.7 billion or something like that in fiscal surplus over the next 10 years and so...

MR. RUSSERT: But you're counting Social Security in that.

SEC'Y O'NEILL: Well, what I'm saying is I'm...

MR. RUSSERT: Let me, my question is a very serious one because the country has been through this so many different times and it's a very straightforward question. Can we have the Bush tax cut fully enacted...

SEC'Y O'NEILL: Yes.

MR. RUSSERT: ...increase in defense spending...

SEC'Y O'NEILL: Yes. Yes.

MR. RUSSERT: ...prescription drugs...

SEC'Y O'NEILL: Yep.

MR. RUSSERT: ...and Social Security and Medicare programs fully funded at their levels for the next generation without deficits?

SEC'Y O'NEILL: I think if we can run our economy at 3 or 3 1/2 percent real growth, we can do all those things together, but it's important we get started sooner rather than later, because every day that we're not running our economy at those high-growth rates, we're adding to the amount of money that goes into debt and interest requirement, added on top of that, and so we need to have clarity of objectives that our economy runs at 3 or 3 1/2 percent real growth. Everything else will take

care of itself. And, yes, we can afford to have lower taxes imposed on our people because having lower taxes means we're going to create more jobs. It is really important that we run an unemployment rate lower than 6 percent, lower than 5.8 percent, which is what was reported on Friday, but the way to do that is not by raising taxes so we can spend more money here in Washington; it's by giving people the wherewithal to spend their own money and to create more jobs.

MR. RUSSERT: Enron, the biggest bankruptcy in our nation's history—people at the top were able to trade out their stock and bring home some money. People at the bottom were not able to do that because of some of the regulations imposed upon them. As secretary of Treasury, will you investigate Enron?

SEC'Y O'NEILL: You know, I think what we've been doing and what we'll do going forward is look and see if there are regulatory actions or rules that could be put in place that would avoid this kind of situation. I think the dust hasn't cleared yet on this case and it's not clear whether the company fulfilled all of its obligations under the existing rules. If they did, it suggests that we need rule change. If, on the contrary, it turns out that they didn't fully comply with all the rules, we have a different issue on our hands.

MR. RUSSERT: That's criminal behavior.

SEC'Y O'NEILL: Well, I don't know. You're jumping to a conclusion. I wouldn't do that.

MR. RUSSERT: If they don't comply with the rules.

SEC'Y O'NEILL: I would tell you from my own experience, again, having run a Fortune 50 corporation, that I thought the rules were very clear on what's required for reporting. And I think we'll see fairly soon from the work that's being done by the SEC and others whether or not the corporation fully complied with its reporting responsibilities.

MR. RUSSERT: Are you going to look into some of the offshore investments?

SEC'Y O'NEILL: Well, I think we need to look at their compliance with rules, and to the extent that takes us to that issue, yes.

MR. RUSSERT: Do you believe the Treasury Department should look at this aggressively because of the political considerations that some are suggesting?

SEC'Y O'NEILL: I think we need to be constantly looking at the rules and the schemes that exist for the way private enterprise operates. With this in mind, investors and the general public need to be able to rely on the truthfulness and completeness of what enterprises report. It's a critical aspect of why our economy has done so much better than the rest of the world. It's because capital believes, people who invest believe, that they can rely on information that's provided to them and the U.S. economy. It's a principle we need to protect and cherish and extend

because it is so important to the fundamental operation of our kind of economy.

MR. RUSSERT: Do you think that Enron is a big story, a serious story?

SEC'Y O'NEILL: Well, it's obviously a big and serious story when millions of people are economically impacted by the meltdown of a major corporation. Of course, it's a very important story and it's something that we need to pay attention to. But we need to pay attention to, again, whether or not all the facts have been dutifully reported and people were given the information required under law to make intelligent decisions.

MR. RUSSERT: Argentina, very serious economic situation. Why should people in the United States care about that?

SEC'Y O'NEILL: We should care a lot about it. You know, I believe we should care about people all over this world, including in Argentina. And when one looks at the videotape and the television that's being reported from Argentina, you have to have no heart not to care about what's going on in Argentina, so, yes, I think we should care about it very much.

You know, I think this: I think going forward, the U.S. economy will be strong again. We will have good rates of real growth again, and with that goes an obligation for us to play an important part in helping other people to move toward our level of economic enjoyment and realization of life potential, and so organizations like the International Monetary Fund and the World Bank are really critically important organizations to that objective in the future. We need to work with them to perfect their operations and their activities so that we don't have Argentinas going forward.

MR. RUSSERT: The president has instructed the Secret Service, which is under your domain, to be involved in the security at the Olympics in Salt Lake in a few weeks...

SEC'Y O'NEILL: Right.

MR. RUSSERT: ...at the Super Bowl in February in New Orleans. Will the Secret Service now be involved in big national events, NBA finals, World Series, those kind of events, because of their expertise?

SEC'Y O'NEILL: Well, I think we need to look at this on a case-bycase basis and we will. Each one of these requires an independent determination and a certification to be classified in a way that Secret Service is deeply involved. We've known for a long time Secret Service would be involved in the Olympics. That was decided a couple of years ago.

But I think we need to do this on a case-by-case basis. I'm hopeful, frankly, that we're going to be able to be sufficiently successful in chasing the terrorists that maybe we can stand down from some of the things we're now doing so that we can return to what most Americans would consider a more normal lifestyle that doesn't require this enormous security. I think we're going to to be ever vigilant. We've discovered to our horror that it was possible for us to be attacked by people on September the 11, and...

MR. RUSSERT: But you're open to the Secret Service being involved in those events if need be?

SEC'Y O'NEILL: I think the Secret Service is one of the great institutions in our society, and if it's necessary and when it's necessary to ensure protection, they'll be there.

MR. RUSSERT: Before we go, The Washington Post op-ed page, an op-ed piece calling for you to step aside. It's nothing new. This was the articles—Human Events: "Fire Paul O'Neill." The National

Review: "Treasury Secretary Paul O'Neill Manifestly Unsuited To The Job." The New York Post: "O'Neill Heave-Ho: The White House, increasingly dismayed by the poor performance of Treasury Secretary Paul O'Neill, is quietly chatting about ways to dump him and replace him."

SEC'Y O'NEILL: Well, you know, I have a couple of clients. The most important client is the president of the United States, and when I say a couple of clients, I would include my good friend Dick Cheney in them. As long as they continue to tell me that they're happy with what I'm doing, and urge me to keep doing the kind of things I'm going, I'm going to be here to help them and be part of their team.

MR. RUSSERT: No plans to step aside?

SEC'Y O'NEILL: No.

MR. RUSSERT: You want to serve a full four-year term?

SEC'Y O'NEILL: I want to be here as long as the president thinks I'm providing value to him. I think he's doing a fabulous job. I would not do anything to detract from his leadership for the country, and when he decides I'm not doing that, I'll be very happy to do something else.

MR. RUSSERT: Paul O'Neill, thank you very much for joining us.

SEC'Y O'NEILL: My pleasure.

MR. RUSSERT: Coming next: An exclusive interview with Hamid Karzai, the new leader of Afghanistan. Then: Democratic Senator Joe Lieberman, Republican Senator John McCain on the ground this morning in the war zone, Tashkent, Uzbekistan, heading to Afghanistan. They are all coming up right here on MEET THE PRESS.

(Announcements)

MR. RUSSERT: Just hours ago, I spoke with the new interim leader of Afghanistan, Hamid Karzai. For days, Americans have heard that there were final negotiations for the surrender of Mohammad Omar, the leader of the Taliban. And now Americans are being told he has slipped away once again. What happened?

PRIME MINISTER HAMID KARZAI: Well, it wasn't really a negotiation for the surrender of Mullah Mohammad Omar. It was a surrender of one of the major commanders in Helmund province in the district of Baghran. We were thinking that Mullah Mohammad Omar was also probably staying in the same area, so the force was organized, basically, to go and take the surrender of this man, and also look for Mullah Mohammad Omar, to find him and arrest him. And that search is still going on.

MR. RUSSERT: Are you confident that you will arrest Mohammad Omar soon?

PRIME MIN. KARZAI: Well, if we find him, we will arrest him. Today, tomorrow, whenever. We'll keep looking for him.

MR. RUSSERT: Could he be so successful in eluding you without significant help on the ground from the Afghan people?

PRIME MIN. KARZAI: The afghan people are helping strongly in his arrest. They're all looking for him. He's one man and one man can easily, you know, hide, can easily take a motorbike and go places.

I take this example from my own entering into Afghanistan when the Taliban were there in all forms, but I managed to move into Afghanistan and they could not find me for months. So it's easy for a man to escape and hide around, but we will keep looking, and finally he'll be in our hands.

MR. RUSSERT: And you will turn him over to the United States?

PRIME MIN. KARZAI: Sure. I have made that pledge. He is a criminal and I'll do that.

MR. RUSSERT: What about Osama bin Laden? Does he remain in your country?

PRIME MIN. KARZAI: I don't really know where he is. He may be inside Afghanistan. He may be outside of Afghanistan.

MR. RUSSERT: What do you believe Mohammad Omar and Osama bin Laden have done for the reputation of the Islamic faith?

PRIME MIN. KARZAI: Well, they did not represent Islam. They did not represent Muslims. They represented terrorism. They represented violence. They represented criminality. They represented work against Islam. They have damaged our religion. They are criminals and they must face trial and they must be dealt with that way.

MR. RUSSERT: Do you believe that Muslim leaders around the

world should be more outspoken in condemning Osama bin Laden and his behavior?

PRIME MIN. KARZAI: Very, very strongly so; yes, I do believe very much.

MR. RUSSERT: When this military operation began three months ago, Americans were told there were anywhere from 20,000 to 40,000 Taliban fighters. We have taken into custody just a few hundred.

Where are the rest?

PRIME MIN. KARZAI: The common Taliban are just common people. They've all gone back to their homes and they're with their families. What was important was this hard core of the radical terrorist elements who were within the Taliban and within the terrorist—those were the people that were leading this war, that were leading this carnage against all other people, and they should be arrested. Some of them are arrested. We are looking for the rest of them, too.

MR. RUSSERT: You are confident that the rank-and-file Taliban soldiers who have gone back to their families will not organize and rise up again?

PRIME MIN. KARZAI: No, they were not responsible for anything. They were just common soldiers.

MR. RUSSERT: How many hard-core Taliban leaders are still free and on the loose in Afghanistan?

PRIME MIN. KARZAI: We are actually looking at a smaller number of hard-core Taliban and terrorist elements that may not number more than 30 or 35. But whoever is found guilty of connection with terrorism, of connection with the perpetration of atrocities against the Afghan people, they will be found and they'll be tried.

MR. RUSSERT: Afghan observers have said that you will not have a successful government unless you get control of the guns, the roads and the tax collection systems in Afghanistan.

PRIME MIN. KARZAI: That's right.

MR. RUSSERT: Will you be able to do that in the very near future?

PRIME MIN. KARZAI: That's right. I think that's a priority. I think we must stop the rule of gun in Afghanistan. We must return power to the civilian people. We must provide protection to the Afghan people. We must give them security. We must have protection on our highways.

MR. RUSSERT: One of the things the Taliban did do was begin to decrease the output of opium from Afghanistan. Will your government be able to eliminate all drug trafficking out of Afghanistan?

PRIME MIN. KARZAI: Yes. We are very determined to stop this by whatever means. But we must also try to return to the Afghan people what is theirs. That's a good life, a good agricultural base and an economic opportunity. Without that kind of medium, it will be hard to stop the production of poppy or to prevent smuggling or the trafficking of narcotics.

MR. RUSSERT: How much does the average Afghan live on per day?

PRIME MIN. KARZAI: Well, it's almost less than a dollar. In some instances, it doesn't exist or there's no income at all. There's been war. We have multiple problems. That's why we expect the international community to come forward in a generous way to help the Afghan people. The rest of it will be handled by Afghans and we will do well.

MR. RUSSERT: Will you be coming to the United States soon?

PRIME MIN. KARZAI: I am planning to do that very soon, yes, sir.

MR. RUSSERT: How soon?

PRIME MIN. KARZAI: Hopefully in February or perhaps before that. I'm not sure when, but it will be in the coming month or two.

MR. RUSSERT: Your father was assassinated by extreme elements. How concerned are you about your own safety?

PRIME MIN. KARZAI: Well, I leave it up to God to protect me.

And right now I am, as far as the physical world is concerned, in the
hands of my fellow Afghans. They give me good protection. And I have
the help of the international community as well in this regard. That's
good, too. But God is the best keeper.

MR. RUSSERT: Hamid Karzai, thank you for joining us.

Coming next: Democratic Senator Joe Lieberman, Republican Senator John McCain report from the war zone in Central Asia, coming up next on MEET THE PRESS.

(Announcements)

MR. RUSSERT: Senators Lieberman and McCain on Afghanistan, the Bush tax cut and the collapse of Enron after this brief station break.

(Announcements)

MR. RUSSERT: And we are back and joined by Senators Joe Lieberman and John McCain. They're heading for Afghanistan and Pakistan this morning, are in Tashkent, Uzbekistan.

Senator McCain, you just heard Mr. Karzai talk about the frustration of trying to find Mohammad Omar.

Are you confident that we will take him into custody eventually?

SEN. JOHN McCAIN, (R-AZ): Oh, I'm confident of that. Perhaps

we didn't appreciate the difficulties here and the terrain and the numbers of people that are sympathetic still to their cause, but I think over time we'll succeed.

MR. RUSSERT: Should the United States have put or should we put more U.S. troops on the Pakistani border in order to prevent Taliban or Osama bin Laden from escaping, Senator McCain?

SEN. McCAIN: It's difficult for me to make that statement. I have trust in General Franks and our leadership in making that determination in, for what it's worth, department. In this part of the world there is a belief that Mr. bin Laden is already over the border in Pakistan.

MR. RUSSERT: If that's the case, Senator Lieberman, what will you say to General Musharraf, the leader of Pakistan?

SEN. JOSEPH LIEBERMAN, (D-CT): First of all, thank him for his partnership in this effort against bin Laden and al-Qaeda and the Taliban. Second, we'll urge him to do everything we can to help us apprehend bin Laden, because it's not going to be over if we don't get bin Laden; won't even be over when we do because we'll continue to have to be here.

MR. RUSSERT: Should the American people know that it's going to cost the taxpayers in this country billions of dollars in aid to Afghanistan in order to redevelop that country?

SEN. LIEBERMAN: Well, it will cost us money, but we're not going to be alone. The rest of the industrialized nations—Europe, Asia—will be with us in supporting that. I think the important thing to say is that we're doing it both for affirmative and defensive reasons. Defensively we don't want the conditions to occur anywhere in this region again in which a radical terrorist group can spring up, use it as a base and attack the United States. But affirmatively, this is a very important part of the world with extraordinary natural resources including particularly gas and oil. And we have an opportunity here to diversify the sources of gas and oil, energy, for the United States and we ought to take advantage of it.

So the friendship of these folks can be very important to us and worth the investment we're going to make.

MR. RUSSERT: Senator McCain, you just came from Turkey. Any discussion of their neighbor Saddam Hussein of Iraq?

SEN. McCAIN: Yes, there was a significant discussion with the leadership there. They have, I think, although it was unstated, a concern that we may get involved here in the region and leave without finishing the job. This happened in 1991, but they recognize that Saddam Hussein remains a threat to not only the United States but to its neighbors. And I am, by the way, very pleased to point out that the Turks are going to take over a major peacekeeping role in Afghanistan. I think they're ideally suited for that. As far as the aid is concerned, yeah, we're going to have to spend money here in this region, not only in Afghanistan but in surrounding countries, but I think that the lesson that we learned in 1989 after the Russians were defeated here in Afghanistan is that you simply

cannot walk away.

MR, RUSSERT: Mr. Karzai said emphatically that he would stomp out drug smuggling and poppy production. Do you think he's capable of doing that?

SEN. McCAIN: I think only with a national army.

MR. RUSSERT: Senator Lieberman, Mr. Karzai was very outspoken in his denunciation of what Mr. bin Laden and Mohammad Omar have done to the reputation of the Islamic faith. Why do you think that so many Muslim leaders around the world have been so reluctant to condemn these men in similar terms?

SEN. LIEBERMAN: I don't know. And it's a painful and destructive silence. But you're right, the leaders of Islam—this is the moment to speak out. And it's going to be in their interest as well as the interest of the rest of the world.

MR. RUSSERT: I want to turn homeward if I can. What has caused the disappearance of the surplus:

the war, recession or tax cuts or all three?

SEN. McCAIN: I think all three, in my view.

MR. RUSSERT: Should we delay the implementation of the tax cut, Senator McCain?

SEN. McCAIN: No, I think that's done, but I don't think anybody wants to revisit that, but I also believe that we should learn that when the economists tell us there's going to be surpluses as far as the eye can see, we'd better view that with a grain of salt.

MR. RUSSERT: Senator Lieberman, should we revisit the implementation of the tax cut?

SEN. LIEBERMAN: Well, I think the important point here, Tim, is that we've got two big problems in our economy. One is we're in recession, and two, the federal government for the first time in three or four years is back into deficit, and I think we've got to deal with those problems for the health of our economy and the security, economic security of every American. To do that we've got to put everything on the table. I think it's wrong for anyone, president or any one of us to say anything is off the table as we try to get our economy going again. It's like having a doctor, you know, that you go to because you're sick say, "Well, there's two things I can do to help you, but one I'm definitely not going to do."

That's just not smart. That's political rigidity and a kind of ideological rigidity that puts kind of personal philosophy ahead of national need. We've got to work together to improve the economy and get people working again.

SEN. McCAIN: Tim, could I mention, I voted against the tax cut and I voted against it because I didn't think there was sufficient relief for

working Americans and I think that events that have transpired since then have validated that vote.

SEN. LIEBERMAN: Absolutely right.

MR. RUSSERT: Well, let's put it right on the table for the American people to hear. Can we afford Social Security, improving our health care, aid to Afghanistan and the region, fighting the war on terrorism and the tax cuts as they are currently constructed?

SEN. LIEBERMAN: Hard to imagine we can do that all without taking our federal government so far back into deficit that it really puts a burden on the future of our kids and a lot of the Social Security trust funds, Medicare funds that we're depending on for old age and also keeps long-term interest rates high in a way that makes economic recovery impossible. So I think we've got to try to balance this.

SEN. McCAIN: My answer is that it depends on the state of the economy. I hope it recovers quickly and soon. If it does, it will relieve these pressures but right now I do not see the funds available to save Social Security and Medicare, and we have to address that and we have to speak plainly to the American people that both of those systems are in serious trouble.

MR. RUSSERT: Why not delay the tax cut until we know if we have the resources necessary to deal with Social Security, health care, aid to Afghanistan and the war on terrorism?

SEN. McCAIN: I don't think that, first of all, it's politically saleable and I'm not sure increasing taxes at this time would do anything but perhaps—or withdrawing the tax cuts would do anything but exacerbate the problems that we have economically.

MR. RUSSERT: Senator Lieberman, would you consider delaying the tax cuts?

SEN. LIEBERMAN: I think you've got to put everything on the table. Again, I don't think—let's remember that most of the tax cut has not yet gone into effect. It's coming up in the future so the option of delaying it a bit because we're in a recession, because we don't want to go too far into debt, that's got to be on the table. So I think we're going to have a terrible year ahead in Congress if any of the leading parties say, "No, under no circumstances will I do that." That's not the way you work together to help the country.

MR. RUSSERT: Senator McCain, there are reports that you are within three signatures in the House of Representatives from getting the campaign finance reform bill on the floor of the House of Representatives for a full vote. Are you confident that will happen this year?

SEN. McCAIN: I am confident that it will happen, and it's long overdue. And I regret the fact that the speaker of the House did not allow an immediate vote at the time that it was appropriate to do so, and I'm sorry that that didn't happen.

MR. RUSSERT: Will the vote succeed?

SEN. McCAIN: I'm confident that it will. It's going to be very, very tough. The opponents are very powerful. They're very strong. They're donating more and more funds to both parties, and so it's going to be tough, but I think we will prevail. The option of not prevailing, frankly, is a disintegration of our system.

MR. RUSSERT: Senator McCain, what's your reaction to the incoming chairman of the Republican National Committee continuing his role as a lobbyist?

SEN. McCAIN: Well, I regret that. I would hope that if there is a need for additional compensation for the incoming chairman, that we could provide that.

MR. RUSSERT: Senator McCain, and, Senator Lieberman—let me start with Senator McCain first—how serious do you think the investigation into the collapse of Enron is for the Bush administration?

SEN. McCAIN: I don't know, because we've just begun the investigation, but there sure was a lot of money washing around. And I'll be very interested to see what we find out. And, clearly, I don't understand some of the machinations that took place that allowed executives to make millions of dollars while the shareholders are left holding the bag.

MR. RUSSERT: Senator Lieberman, how serious is the Enron investigation?

SEN. LIEBERMAN: Well, the Enron investigation is very serious. The focus of it is not in the first instance on a connection between anybody in the Bush administration and the folks at Enron, but, you know, to do a thorough investigation, you've got to ask that question, certainly, down the road. And the question that we're going to ask on our committee is: Where were the oversight agencies of the federal government? Could they have done more? And what about the auditors and outside directors of Enron?

And what about these strange offshore entities, partnerships that were created by executives of Enron, which traded with the company, in some cases seeming to create a market, that then drew average Americans to put their money into the company and lose an awful lot of it?

So this is an unprecedented event. The largest bankruptcy in American history. And unless we look at it thoroughly and ask all the questions, the danger is it's going to happen again and a lot more average folks are going to lose a lot of hard-earned money.

MR. RUSSERT: Democratic Senator Joe Lieberman, Republican Senator John McCain. And we'll be right back. (Announcements)

MR. RUSSERT: And a special welcome to our newest network affiliate, KNTV, NBC-3 in the San Francisco Bay area. That's all for today. We'll be back next week. If it's Sunday, it's MEET THE PRESS.



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Wednesday, January 16, 2002 4:55 PM

To:

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Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 1/16/02

- -- U.S. equities plunged on disappointing earnings data, while Treasury prices remained narrowly mixed.
- -- The dollar traded in a narrow range against the euro, traded firmer against the yen.

The Fed's "Beige Book" report on regional economic conditions, prepared for the Jan.29-30 FOMC meeting, indicated that economic activity generally remained weak but there were "scattered reports of improvement." Most districts reported falling prices for goods and services.

U.S. equity markets closed with substantial losses in moderate trading, pressured by weakness in technology and financial issues. The Nasdaq index was off 2.8%. Intel Corp. fell 2.8% to \$33.71 after releasing disappointing earnings data. JP Morgan Chase fell 3.6% to \$36.51 after reporting its first quarterly loss in five years due to exposure to Enron and Argentina. The worst stock performers were financial, software, semiconductor, oil, computer, telecom and bank issues.

Analysts expect tomorrow's report on December housing starts will show a 2.1% decline. Dealers will also focus on weekly state jobless claims and the Philadelphia Fed's business activity index (scheduled for release at noon).

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The January Federal funds futures contract fell 1 basis point to 1.71%, while the February and March contracts rose 2 bps and 3 bps to 1.63% and 1.62%, respectively.

The February crude oil contract fell \$0.04 to \$18.86 a barrel. The February natural gas contract climbed \$0.10 to \$2.39 per million btu.

The dollar appreciated 0.6% against the yen and was little changed against the euro. The dollar was 0.2% firmer against the British pound but 0.8% weaker against the Swiss franc.

Latin American equity markets closed slightly firmer, with the Bovespa rising 0.6%. The Argentine peso was bid at 1.83 as the central bank intervened for the second straight day to support the currency. The IMF today gave Argentina an extra 12 months to repay \$936 million due Thursday. Brazil's real firmed 0.5% as long dollar positions were pared and on continued expectations for capital inflows.

The EMBI+ spread narrowed 2 bps to 732 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also narrowed, including Argentina (-57 to 4549) and Brazil (-1 to 868). Mexico's sub-index was flat at 320, while Turkey's sub-index edged up 3 bps to 703 bps.

Tomorrow's Events: Time Consensus Expectation Previous Period JPN BOJ Monthly Econ. Report GER GDP 2001 +0.7% y/y +3.2% y/y UK Retail Sales Volumes, Dec. +1.2% m/m +0.5% m/m US Initial Jobless Claims, wk ended 1/12 8:30 AM +50,000 -56,000 to 395,000 US Housing Starts, Dec. -2.1% to 1.610 mil. 8:30 AM 1.645 mil.



Bradshaw, Tara

From:

Sweetnam, Bill Jr

Sent:

Tuesday, January 15, 2002 8:20 PM

To:

Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Young, JT; Bradshaw,

Tara; Bair, Sheila; McCall, Neal; DeMarco, Edward

Subject:

Senate Hearing on Enron-Related Pension Issues

I have heard, second hand, that Sen. Kennedy will schedule a hearing on February 7 to discuss the pension issues surrounding Enron. He will have a government panel and will ask for testimony from DOL and Office of Tax Policy. He will also have a victims panel and a panel of academic experts.

William F. Sweetnam, Jr. Benefits Tax Counsel Office of Tax Policy Treasury Department 1500 Pennsylvania Avenue NW Washington DC 20220

Phone: 202-622-0170 Fax: 202-622-0646

From:

Sharer, James

Sent:

Wednesday, January 16, 2002 4:55 PM

To:

DL Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager.

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 1/16/02

-- U.S. equities plunged on disappointing earnings data, while Treasury prices remained narrowly mixed.

-- The dollar traded in a narrow range against the euro, traded firmer against the yen.

The Fed's "Beige Book" report on regional economic conditions, prepared for the Jan.29-30 FOMC meeting, indicated that economic activity generally remained weak but there were "scattered reports of improvement." Most districts reported falling prices for goods and services.

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Tomorrow's Events: Time JPN BOJ Monthly Econ. Report GER GDP 2001 UK Retail Sales Volumes, Dec. US Initial Jobless Claims, wk ended 1/12 8:30 AM US Housing Starts, Dec.

8:30 AM

Consensus Expectation

+0.7% y/y +0.5% m/m +50,000

-2.1% to 1.610 mil.

Previous Period

+3.2% y/y +1.2% m/m

-56,000 to 395,000

1,645 mil.



Closing Global Financial Markets

Treasury Michael Applyana Unit, 852-2650

4:10 PM

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T-SCHOOL STATE	4-10 F 14	C. District
DJIA	9,712	-2.13%
Nasdaq	1,944	-2.82%
S&P 500	1,128	-1.62%
Wilshire Tot Mix	10,611	-1.58%
DITA Vol.	198,321,800	
Canadian TSE	7,584	-0.78%
Mexican Bolsa	6,579	0.09%

Familias

36F 200	1,140	1 E. D. C. 74
Wilshire Tot Mix	10,611	-1.58%
DITA Vol.	198,321,800	
Canadian TSE	7,584	-0.78%
Mexican Bolsa	6,579	0.09%
Brazilian Bovespa	13.084	0.56%
German Dax	4,984	-1.54%
French CAC-40	4,426	-2.06%
U.K. FTSE	5,128	-0.74%
Nikkri-225	10,178	-0.30%

U.S. Treasuries	4:10 PM	Change bps
1-month bill	1.60%	-1
3-month bill	1.60%	-1
6-month bill.	1.66%	2
2-year	2,79%	0
5-year	4,08%	-2
10-year	4.83%	-2
30-year	5.34%	0

Money Markets	4:10 PM	Change bps
Overnight rate	1.69%	enchanged
February Fed Funds contract imp vld	1.62%	3

USD versus		4:10 PM	Change
Japanese yen		131.84	0.56%
liuro	5	0.8828	-0.03%
Storling	5	1.4371	0.19%
Swiss franc		1.6584	-0.80%
Canadian dollar		1.5982	0.63%
Мекісан резе		9.178	-0.01%
Brazilian real		2.363	-0.47%

Other cross rates	4:10 PM	Change
Euro/yen	116.38	0.63%
Euro/sterling	0.614	0.23%
CONTRACTOR SPECIFICATION	CONTRACTOR STATE	SAME BOTTOM STORY
6 11.1		

Commodities	4:10 PM	Change		
Gold	\$287.30	\$3.00		
Oil (Brent)	\$18.50	-50.35		
Neur-dated NYMEX				
contract	\$18.86	-50.04		

Tomorrow's Events: Time JPN BOJ Monthly Econ. Report GER GDP 2001

+0.7% y/y +0.5% m/m +50,000

+3.2% y/y +1.2% m/m

UK Retail Sales Volumes, Dec. US Initial Jobless Claims, wk ended 1/12, 8:30 AM US Housing Starts, Dec. 8:30 AM

-2.1% to 1.610 mil.

Consensus Expectation

-56,000 to 395,000

1.645 mil.

Previous Period

For Internal Use Only

Drafled by: Jim Sharer 1/16/02 4:49 PM

GLOBAL FINANCIAL MARKETS 1/16/02 4:15 PM

S PERFORMANCE	History	15-Jun	16-Jan	Eriday's close	This week	This year
The second secon	THE PROPERTY OF THE PARTY OF TH	A STATE OF THE PROPERTY OF	CONTRACTOR AND	appendix a store		donte us
Yes	131.88	131.08	0.61%	132.25	-0.28%	-0.04%
Euro	0.8829	0.8830	0.01%	8.8927	1.10%	-0.77%
Sterling Swiss	1.4377	L4411	0.23%	L4481	0.72%	-1.18%
Canadian S	1.6588	1.6716	-0.77%	1,6522	4.40%	0.15%
Australian S	1.5987	1.5883	0.65%	1,5959	0.18%	-0.34%
Karean won	0.5155	0.5173	0.35%	0.5200	0.87%	1.38%
Indenesian rupiah	1310.8	1311.9	-0.85%	1310.5	0.62%	0.21%
Philippine pena	10386	10508	-0.02%	10431	-0.44%	0.34%
Thai baht	51.25	51.25	0.00%	51.28	-0.05%	0.58%
Taiwas 5	43.88	43.84	0.09%	43.59	-0.24%	0.80%
Polish zloty	34.95	34.95	0.00%	35.60	-0.14%	0.10%
Rustian rubie	4.110 30.52	4.064	0.64%	4.646	1.59%	-3.72%
South African rand		30.55	-0.0814	30.48	0.12%	-0.08%
Mexican pese	11.645	11.705	-0.51%	11.315	2.92%	2.84%
Brazilian resi		9.182	0.05%	9.199	-0.13%	-0.37%
somen real	2.364	2.375	-0.46%	2.400	-1.50%	-2.19%
COMMODITIES						
Gold	\$287.55	\$284.65	1.02%	\$287.55	0.00%	3,00%
European Brent	\$18.50	\$18.86	-1.91%	\$20.06	-7.87%	4.39%
Sear Nymex futures	\$18.89	\$18.47	2,27%	\$19.68	-4.01%	4,79%
CRB lades	5194.33	\$193.00	0.68%	\$194.39	-0.84%	1.99%
EQUITES	Colors and Charles (1971)	of classical management	BEFAST COLORS		Difference of the second	40-14-06-0
Dow Jones	9,712	9,924	-2.13%	9,588	-3.76%	-3.89%
Needing	1,944	2,001	-2.82%	2,622	-3.86%	-0.30%
SAP 500	1,828	1,146	-1.62%	1,146	-1.57%	-1.79%
Nikkei 125	10,178	10,286	-0.30%	10,442	-2.53%	-3.46%
Japan Topix	988	550	0.34%	1,000	-1.23%	4.31%
German DAX	4,984	5,662	-1.54%	5,210	-4.33%	-3.41%
French CAC-40	4,426	4,518	-2.06%	4,555	-2.84%	-4.30%
U.K. FTSE-(00	5.128	5,166	-0.74%	5,199	-1.37%	-1.72%
H.K. Hang Seng	19,964	11,014	-0.45%	11,166	-1.81%	-3.88%
Korean Kospi Talman Walatan t	711	719	-1.07%	727	-2.26%	2.49%
Taiwan Weighted	5,009	5,169	0.00%	5,109	0.00%	0.00%
Polish Wig	15,653	15,536	0.75%	15,700	-0.30%	12,43%
South African JSE	10,661	10,772	-1,03%	10,900	-2.1914	2.10%
Mesican Bolsa Brazilian Boyespa	6,579	6,573	0.09%	6,420	2.49%	3,35%
	13,484	13,011	0.56%	13,587	-3.71%	-3.64%

STATE OF THE BOOK OF		ROSE.	MF25200	E CLEAN	George 1	ALTES	AND REAL	Change	E FOREST	Cinc	Tab III	Carre	*Chinh	Charge
Oversight rate 3-month hill 3-year bond 5-year bond 10-year bond 30-year bond	1.71 1.60 2.83 4.08 4.83 5.34	-14 -1 4 -2 -2 0	0.05 0.01 0.13 0.58 E.40 2.55	0 0 -1 -1 -1	3.33 3.34 3.69 4.29 4.78 5.16	1 1 2 2 4	3.89 3.96 4.66 4.94 4.82 4.51	11 -1 -2 -3 1 0	3.33 3.25 3.72 4.37 4.86 5.23	1 0 0 1 3	3.33 3.34 3.88 4.56 5.04 5.49	I 1 -1 1 3 4	1.97 1.90 2.83 4.38 5.23 5.59	-4 -2 -3 0 2 1

US FIXED INCOME	2-svar Fattig	Maga Fannie	16-year orop spread	2-19 year UST aproad	3-30 year UST spread
Current	6,00	5.35	64	200	251
Bps change	trichanged	-1	1	-6	-4

MERGING FIXED INCOME	Keres '08	Theiland 'II.	Indonesia '06	Rumia MinFis '07	Peland PD1	
Current Sps charge	5.58 B <u>Argentina Par</u>	4.58 I Brazil C	U.88 unchanged Mexico Par	11.50 unchanged Venezuela DCB	6.94	
Current	146.59	13.14	8.56	16.78		
Bps change	854	7	-22	-56		

					Currence	ies			
		n Rocal corressy Web		Perce	ent Change	(In Dollars	per Unit T	(come)	
	16-Jan	15-Jan	16-Jan	15-Jan	This week	This meath	This year	In '01	Lu '09
Japan.	131.88	131.08	-0.6%	0.7%	0.3%	-0.1%	-0.1%	-15.1%	-11.9%
Euro	0.8829	0.8830	0.0%	-1.2%	-1.1%	-0.8%	-0.8%	-5.6%	-6.3%
EuroYen	116.42	115.72	0.6%	-1.9%	-1.4%	-0.3%	-0.3%	8.4%	4.4%
UK	1.4377	1.4411	-0.2%	-0.6%	-0.7%	-1.2%	-1.2%	-2.6%	-7.7%
Australia	0.5155	0.5173	-0.3%	-0.9%	-0.9%	1.3%	1.3%	-8.9%	-14.9%
Carada.	1.5987	1.5883	-0.7%	0.0%	-0.2%	-0.3%	-0.3%	-6.3%	-3.7%
Gold	287.55	284.65	1,0%	0.3%	0.0%	3.1%	3.1%	2.4%	-5.5%
Thailand Indonesia	43.88 10,386	43,84	-0.1%	0.3%	0.2%	0.8%	0.8%	-1.9%	-15.7%
Malaysia	3.80	10387.5 3.80	0.0%	0.2%	0.4%	0.1%	0.1%	-7.5%	-38.5%
Philippines	51.25	51.25	0.0%	0.056	0.0%	0.0%	0.0%	0.0%	0.0%
South Korea	1,311	1312	0.1%	-0.4%	0.0%	0.6%	0.6% 0.2%	-3.1%	-24.1%
Taiwan	34.95	34.95	0.0%	0.1%	0.1%	0.1%	0.1%	-3.8% -5.6%	-11.4% -5.5%
Singapore	1.8315	1.8267	-0.3%	0.4%	0.6%	0.8%	0.8%	-6.5%	-4.1%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.3640	2.3750	0.5%	0.8%	1.5%	-2.3%	-2.3%	-18.5%	-8,0%
Mexico	9.1865	9.1818	-0.1%	0.4%	0.1%	-0.4%	-0.4%	5.1%	-1.4%
Chile	670.15	667,65	-0.476	0.1%	1.0%	-1.4%	-1.4%	-15.2%	-8.3%
Colombia	2,274.50	2277.10	0.1%	0.7%	1.0%	0.1%	0.1%	-1.9%	-19,3%
Venezuela	761.50	762.75	0.2%	-0.3%	0.0%	-0.5%	-0.5%	-8.3%	-7.8%
Argentina	1.83	1.90	3.8%	-14.2%	-9.8%	45.4%	45.4%	0.0%	0.0%
Poland	4.1100	4.0838	-0.6%	-0.7%	-1.6%	-3.7%	-3.7%	4.1%	0.1%
Hungary Czech	275.32	276.52	0.4%	-1.2%	-0.4%	0.0%	0.0%	2.0%	-11,0%
Russia	36.550 30.520	36.470	-0.2%	-1.2%	-1.4%	-2.5%	2.5%	5.2%	-5.1%
South Africa	11.6450	30.545 11,7945	0.1%	-0.2%	-0.1%	-0.1%	-0.1%	-6.8%	-3.6%
Turkey	1,375,400	1,365,000	-0.7%	0.4%	-2.9% 0.5%	2.8% 5.5%	2.8% 5.5%	-57.9% -117.1%	-23.5% -23.6%
	-		E	quities (In					-22.070
	Unit Ch	THE REAL PROPERTY.		Per	rcent Change				
	16-Jun	15-Jan	16-Jan	15-Ian	This wk	This wa	This w	In '91	In '00
Dow	9712	9924	-2,1%	0.3%	-2.8%	-3.1%	-3.4%	-7.1%	-6.2%
Nasdag Nikkei	1944	2001	-2.8%	0.5%	-3.9%	-0.3%	-0.3%	-21.1%	-39.3%
FT-SE 180	10178 5128	10208 5166	-0.3%	-2.2%	-2.5%	-3.5%	-3.5%	-23.5%	-27.2%
DAX	4984	5062	-0.7% -1.5%	1.0% -0.1%	-1.4%	-1.7%	-1.7%	-16.2%	-10.2%
C4C-40	4426	4518	-2.1%	1.4%	-4.3% -2.8%	-3.4% -4.3%	-3.4% -4.3%	-19.8% -22.0%	-7.5% -0.5%
Theiland	320	323	-1.2%	-0.7%	-0.9%	5.2%	5.2%	12.9%	-44,1%
Indonesia.	424	421	0.6%	1.3%	2.9%	8.0%	8,0%	-5.8%	-38.5%
Malaysia.	701	700	0.0%	0.3%	-0.3%	0.7%	0.7%	2.4%	-16.3%
Philippines	1195	1185	0.8%	-0.7%	0.3%	2.3%	2.3%	-21.8%	-30.3%
Hong Kong	10964	11014	-0.4%	-1.7%	-1.8%	-3.8%	-3.8%	-24.5%	-11.0%
South Korea	711	719	-1.1%	-3.4%	-2.3%	2.5%	2.5%	37.5%	-50.9%
Taiwan	5109	5109	0.0%	0.0%	0.0%	0.0%	0.0%	7,7%	-43.9%
Singapore China	1675 153	1694 148.44	-0,2% 2,9%	-2.1% -0.8%	-1.7% -1.1%	3.1%	3.1%	-15.7%	-22.3%
Brazil*	13084	13011	0.6%	-0.8%	-3.7%			91.5%	136,2%
Argentina*	343	343	0.055	0.0%	0.0%	-3,6% 16,2%	-3.6% 16.2%	-11.0% -29.1%	-10.7%
Mexico*	6579	6573	0.1%	2.9%	2.5%	3.2%	3.2%	-29.1% 12.7%	-24.3% -20.7%
Chile	96	96	-0.2%	0.0%	-1.4%	-11.8%	-11.8%	13.2%	-32.6%
Colombia.	1089	1074	1.4%	0.7%	1.7%	1.7%	1.7%	50.2%	-28.6%
Venezuela	6468	6478	-0.2%	-0.4%	0.0%	-1.6%	-1.6%	-3.7%	26.0%
Poiand	15653	15536	0.8%	0.7%	-0.3%	12.4%	12,4%	-22.0%	-1.3%
Hungary	7791	7635	0.9%	0.6%	-0.9%	8,0%	8.0%	-9.2%	-11.0%
Czech	403	403	-0.2%	-0.7%	2.2%	2.0%	2.0%	-17.5%	-2.3%
Russia South A Since	283	284	-0.3%	0.6%	2.7%	8.8%	8.8%	81.5%	-18.2%
South Africa Turkey	10661	10772	-1.0%	0.5%	-2.2%	2.1%	2.1%	25.4%	-2.5%
Turkey	12759 2502	13348	-4.4%	-2.1%	-6.3%	-7.4%	-7.4%	46.0%	-37.9%

Equides begin trading in Brazil, Argentina, and Mexico at 8000 a.m., 9000 a.m., and 9000 a.m. Equiem time respectively.

-0.156

-2.8%

-3.4%

-3.4%

-23.5%

-38.8%

-0.8%

Greece

2502

From:

Sharer, James

Sent:

Tuesday, January 15, 2002 4:43 PM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 1/15/02

U.S. equities moved higher, bolstered by strength in financial and bank stocks.

-- Treasury prices moved higher ahead of tomorrow's slate of U.S. economic data.

U.S. equity markets closed with modest gains in active trading, aided by strength in financial and bank issues. Analysts await earnings news after the close from Intel Corp. and Juniper Networks. The NYSE suspended trading in Enron Corp. and plans to delist the stock following the financial collapse of the firm late last year. K-Mart fell 13.7% to \$2.45 and is down 55% since December 31 on expectations the firm may soon file for bankruptcy. The best stock performers today were financial, bank, software, oil, insurance and computer issues.

Analysts expect tomorrow's CPI report for December will be unchanged following an unchanged report in November. The December core CPI is seen up 0.2% after rising 0.4% in November. The December industrial production report is expected to be unchanged, while capacity utilization is seen edging down to 74.6% from 74.7% in November. The Fed's "Beige Book" report is scheduled for release at 2 PM tomorrow.

Treasury coupon prices were unchanged to up 5/8 point in moderate trading. Traders noted reduced concerns over inflation, the unwinding of corporate hedges and remained influenced by Fed Chairman Greenspan's recent words of caution regarding the U.S. economy. Treasury auctioned today \$6.0 billion 4-week T-bills to pay down \$6.0 billion. The results were as follows:

Awarded rate: 1.605% Coverage ratio: 4.59 times

Today's awarded rate compares with last week's awarded rate of 1.660%.

The January Federal funds futures contract was unchanged at 1.72%, while the February and March contracts rose 2 bps and 1 bp to 1.61% and 1.59%, respectively.

The February crude oil contract edged up \$0.01 to \$18.90 a barrel ahead of API oil inventory data tonight. The February natural gas contract rose \$0.04 to \$2.29 per million btu. Spot gold fell \$1.00 to \$284.10 an ounce.

The dollar appreciated 1.3% against the euro and was 0.5% weaker against the yen. The dollar was 0.6% firmer against the British pound and 1.0% firmer against the Swiss franc. The Canadian dollar firmed 0.4% following today's BOC 25 bps easing. The BOC has eased eleven times since the start of 2001 for a total of 375 bps.

Latin American equity markets closed mixed, with the Bolsa outperforming by climbing 2.9%. Mexico's peso firmed 0.3% on news that Fitch boosted the country's debt rating to investment grade (to BBB- from BB+). The Argentine peso was bid at 1.90. Brazil's real firmed 0.8% and Bovespa edged lower by 0.9%.

The EMBI+ spread widened 3 bps to 732 bps over the comparable Treasuries. Other EMBI+ sub-indexes narrowed on the day, including Argentina (-38 to 4639), Brazil (-9 to 863). Mexico's sub-index was flat at 319, while Turkey's sub-index rose 15 bps to 702 bps.

Tomorrow's Events: JPN BOJ Policy Board Meeting	Time	Consensus Expectation	Previous Period
UK Claimant Jobless, Dec.	8:30 AM	+7,000 m/m	+4,800 m/m
US CPI, Dec.		unch	unch
US Business Inventories, Nov.	8:30 AM	-0.7%	-1.4% m/m
US Industrial Production, Dec.	9:15 AM	unch	-0.3% m/m



Closing Global Financial Markets

-- U.S. equities moved higher, bolstered by strength in financial and bank stocks.

- Treasury prices moved higher ahead of tomorrow's slate of U.S. economic data.

1/15/02 4:10 PM

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Equities	4:07 PM	Change
DITA	9,924	0.33%
Nasdaq	2,001	0.50%
S&F 500	1,146	0.68%
Wilshire Tet Mkt	10,626	0.68%
DJIA Vol.	164,639,900	
Canadian TSE	7,644	0.27%
Mexican Bolse	6,573	2.90%
Brazilian Bovespa	13,011	-0.85%
German Dax	5,062	-0.08%
French CAC-40	4,518	1.455%
U.K. FTSE	5,166	1.03%
Nikkei-225	10,208	-2.24%

U.S. Treasuries	4:07 PM	Change bps
l-month bill	1,61%	1
3-mooth bill	1.60%	2
6-month bill	1.65%	2
2-year	2.78%	1
5-year	4.10%	-1
16-year	4.85%	-4
30-year	5.34%	-4

Money Markets	4:07 PM	Change bps
Oversight rate	1.81%	unchanged
February Fed Funds contract irep yld	1.60%	1

USD versus		4:07 PM	Change
Japanese yen		131.28	-0.53%
Euro	S	0.8830	1.27%
Sterling	5	1.4396	0.64%
Swiss firance		1.6721	1.00%
Canadian dollar		1.5883	-0.38%
Mexican peso		9.18	-0.29%
Brazilian real		2.374	-0.84%

Other cross rates	4:07 PM	Change
Euro/yen	115.92	-1.78%
Euro/storling:	0.613	-0.65%
STATE OF THE PERSON NAMED IN	gen de la come	AND DESCRIPTION OF THE PARTY OF
Common Matter	4.62.544	

Commodities	4:07 PM	Change
Gold	\$284.10	-51.00
Oil (Brent)	518.86	-50.02
Neur-dated NYMEX		
contract	518.90	10.02

Tomorrow's Events: JPN BOJ Policy Board Meeting	Time	Consensus Expectation	Previous Period
UK Claimant Jobless, Dec. US CPI, Dec. US Business Inventories, Nov. US Industrial Production, Dec.	8:30 AM 8:30 AM 9:15 AM	+7,000 m/m unch -0.7% unch	+4,800 m/m unch -1.4% m/m -0.3% m/m

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Drafted by: Jim Sharer 1/15/02, 4:39 PM

From:

Sharer, James

Sent:

Wednesday, January 09, 2002 8:24 AM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Morning Report 1/9/02

--Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second quarter.

-The yen firmed against the major currencies overnight as Japanese and South Korean officials expressed some discomfort with the recent swift depreciation in the yen.

FX: The yen retraced to Y 132.30 after falling to a low of Y133.37, which prompted Japanese officials to express discomfort with the speed of the yen's recent depreciation. Government spokesman Fukada acknowledged that the yen's recent decline had been "a bit rapid" but "this is a level which is manageable." However, earlier in the Tokyo session, the MOF's Kuroda stated that the country's forex policy "remains unchanged despite the yen's rapid decline. South Korean officials continued to complain about the weaker yen. The dollar was little changed against the euro.

Japan: Japan's leading diffusion index rose to 25 in November from a zero reading in October, while November household spending was up 0.9%. The Nikkei 225 index and the TOPIX index were down 0.3% and 0.7% as bank stocks weakened further. The TOPIX bank index fell 1.8%. JGB yields were unchanged to down 2 bps. The JGB 10-year auction was well bid, with a coupon of 1.4% and the highest coverage ratio since 1989 at 11.35 times.

Emerging Asia: Emerging Asian stock markets were mixed. The Hang Seng and Singapore indexes were off 2.3% and 1.1%. The Taiwan and Kospi indexes were up 1.0% and 2.3%, aided by strength in semiconductor stocks. Hynix Semiconductor rose 15.0%, bolstered by talk of an offer from Micron Technology for the South Korean chipmaker.

Europe: German unemployment rose a smaller-than-expected 6,000 in December. The Euro area business climate index fell to -1.23 in December, its lowest level since 1996. Euro area 3Q01 labor costs rose a larger than expected 3.3%. The BOE policy committee began a two-day series of meetings. European stock bourses were mostly lower. The FTSE underperformed, pressured by declines in retail store and oil issues. HSBC was downgraded by an analysts, citing exposure to Enron and Argentina. German bund yields were up 1 to 6 bps on strong Euro area economic data. U.K. gilt yields were higher by 4 to 10 basis points.

Turkey: Turkey's National 100 index was down 3.1% to 14,421 on some profit-taking. The lira weakened 0.3%. The Turkish EMBI+ sub-index spread narrowed 6 bps to 660 bps, while the overall EMBI+ spread narrowed 3 bps to 700 bps.

Latin America: The Argentine EMBI+ sub-index spread fell 4 bps to 4316 bps, while Brazil's EMBI+ sub-index rose 3 bps to 835 bps.

Commodities: Brent crude oil is currently down \$0.50 to \$20.52 a barrel following news of a build in both crude oil and distillate inventories.

U.S. Assets Overnight

Treasury coupon prices are currently down 1/8 to 1/4 point in light trading. There are no major U.S. economic statistics scheduled for release today. Treasury will auction at 1 PM \$6.0 billion 10-year inflation-indexed notes. The Dow, S&P 500 and Nasdaq index futures are indicating no clear direction at the New York open.

Today's Events:	Actual	Consensus Expectation	Previous Period
JPN Prelim. Leading Diffusion index, Nov.	. 25	40.1	0 (was 16.7)
JPN Household Spending, Nov.	+0.9% y/y	+0.1% y/y	+0.4% v/v
GER Unemployment, Dec.	+6.000	+20,000	+17.000
EUR 3Q01 Labor Costs	+3.3%	+2.8%	+2.7% (was +2.8%)
EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18)



AM Global Financial Markets

-Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second quarter.

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Tressury Market Co.	2758ki l	Jn i i	290.00	56
	1.9087	7-10	137	_

1120 May 1712 7434			
7:46 AM		Change	
	132.31	-0.33%	
5	0.8921	0.10%	
5	1.4414	-0.19%	
	1.5948	-0.06%	
5	0.5225	0.25%	
	44.09	0.07%	
	10410	-0.05%	
	1301.9	0.18%	
		7:46 AM 132.31 \$ 0.8921 \$ 1.4414 1.5948 \$ 0.5225 44.09 10410	

Other cross rates	7:46 AM	Change
Euro/yen	118.07	-0.40%
Euro/sterling	0.6186	-0.27%

Equities	7:46 AM	Change
S&P Futures	1,163	0.01%
Mikkei-225	10,664	-0.30%
Theiland	319.24	0.19%
Indonesia.	391.50	0.98%
Malaysia.	700.47	1.19%
Hong Kong	10,448	-2.33%
S. Korea	751.61	2.29%
Taiwan	5,109	-3.76%
German Dux	5,252	0.30%
French CAC-40	4.564	-0.0874
U.K. FTSE	5,219	-0.60%
Russia RTS	291.73	1.04%
Poland WTG	15,586	2,88%

U.S. Treasuries	7:46 AM	Change hos
3-month bill.	1.68%	unchanged
6-month bill	1.77%	-1
2-year	3.06%	1
5-year	4,37%	2
10-year	5.10%	1
30-wav	5.55%	2

Credit Overseas	7:46 AM	Change bps
3-month Euribor	3.33%	1,000
10-ye German bund	4.88%	3
3-month J-Bills	0.01%	G.
10-yr.JGB	1.38%	-2
3-month U.K. bills	4.01%	8
10-yr U.K. gilt	4.97%	5

Commodities	7:46 AM	Change
Gold	\$279.00	50.30
Oil (Brent)	\$20,52	-30.50

1	Today's Events:	Actual	Consensus Expectation	Previous Period
1	JPN Prelim. Leading Diffusion index, Nov.	25	40.1	0 (was 16.7)
1	JPN Household Spending, Nov.	+0.9% y/y	+0.1% w/v	+0.4% yr/y
1	GER Unemployment, Dec.	+6,000	+20,000	+17,000
1	EUR 3Q01 Labor Costs	+3.3%	+2,8%	+2.7% (was +2.8%)
١	EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18)

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Jim Sharer 1/9/02 8:19 AM

GLOBAL FINANCIAL MARKETS 1/8/02 7:45 AM

- S BCD/DARGE WAS			9-Jan		8-Jun			9-Jan	Friday's cha	-	This week		This year	
STREET OR MANGE	CONTRACTOR OF THE PARTY OF THE	min-p		De NI	A THE ROOM	40	1000	研究學		Post 6	Ribbins In A	ecelling	Telder Code	14.11
Yes			132,33		132.83			-0.38%	131.00		1.01%		-0.47%	
Euro			1.8923		0.8934			0.12%	0.8945		0.28%		0.28%	
Storting Suries			1.4418		1.4394			-0.17%	1,4474		0.38%		4.89%	
Canadian S			1.6576		1/6542			0.21%	1.6534		0.25%		0.22%	
Australian S			0.5326		1.5961			-0.04%	1.5956		-0.01%		-0.03%	
Korean won	-		1396.9		0.5235			0.17%	0.5207		-0.36%		2.67%	
Indenesian rupiah			10420		1304.5 10425			0.18%	1304.5		0.18%		0.50%	
Philippine peso			51.55		51.70			4.05%	16415		0.05%		-0.19%	
Theilight			44.11		44.09			0.06%	51.63		-4.15%		0.00%	
Taiwan S			35.00		34.99			0.00%	43.91		0.47%		0.18%	
Palish zinty	_		3.985		3,962	_		0.99%	34.95		0.14%		-0.04%	
Busian rable			30.54		30.62			-0.26%	30.54		2.85%		-8.57%	
South African rand			11.330		11,421			-0.2076	12.109		0.02%		-4L15%	
Minican pero		-	9,199		9,191			0.09%	9.162		-6.43%		5,47%	
Brazilian reát			1.376		2,374			0.08%	2,331		0.40%		-0.5846	
			20.0		2014			4.00.16	2.331		1,93%		-2.61%	
COMMODITIES	2. 57.11			-6,44	4 7,410	lk i vo				7 - 71		_		
Geld			\$279.25		\$279.05			0.07%	\$279.95		0.11%		0.11%	
European Brent			520.52		\$21.03			-2.43%	\$21,20		-3.21%		6.09%	
Near Nymex futures			\$20.78		\$21.22			-2,47%	\$21.45		-3.12%		4.74%	
CRB Index			\$195,03		\$195.03			0.00%	\$193.82		0.62%		2.32%	
ALABAMA ROBITIES	100	ald the	1,5150	64-0-c	right stalle	SHIP.	rahiyind	1000	ulasila di Alba Sarifani	- We	electric body	40474	e de La Maria de La Maria	200
Duw Junes			10,151		10,151			0.00%	10,260		-1,06%		1.29%	
Nasdaq			2,056		2,056			0.00%	2,059		-0.18%		5.40%	
S&P 500			1,161		1,161			0.0614	1,073		+1.01%		1,10%	
Niklori 225			10,664		10,696			-0.30%	10,871		-1.91%		1.15%	
Japan Topis German BAX			1,025		1,032			-0.66%	1,054		-2.75%		-0.69%	
French CAC-48			5,251		5,236			0.27%	8,319		-1.28%		1.7644	
U.K. FTSE-100			4,565 5,217		4,568			-0.07%	4,683		-2.52%		-1.2914	
H.K. Hang Seng					5,250			-0.63%	5,324		-2.60%		0.00%	
Karean Koupi			752		11,714			-2.33%	11,702		-2.23%		0.36%	
Tatwan Weighted			5,109		5,109			2.29%	748		0.52%		8.35%	
Polisk Wig			15.588	-	15,149			2.98%	5,149		0,00%		0.00%	
South African JSE			10,653		10,767			-1.07%	15,013		3.83%		11.96%	
Mexican Bolsa			6,641		6,641			0.00%	10,800		-1.37% 0.44%		2.02%	_
Brazilian Bovespa			14,068		14,168			0.00%	14,332		-1.15%		4.32%	
										-			43976	-
AND DESCRIPTION OF THE PARTY OF			Security.	SU277	SECULIAR S	Rent L	greve:	and a	and the same	ELST.	a light of C	111	at some time to	100
Overnight rate	1.72		0.05		3.35		4.02	2	3.35	0	3.35	0	2.19	-3
5-month bill	1.68		9.01		3.33		4.61	9	3.25	2	3.33	1	1.90	0
2-year bond	3.66	-1	0.13		3.69	6	4.83	10	3.74	5	3.89	4	3.15	0
5-year bond 10-year bond	4.38	2	0.59		4.34	4	5.89	8	4.46	5	4.42	4	4.65	ĭ
	5.10	1	1.38	-2	4.58	3	4.98	6	4.35	4	5.13	1	5.41	3

ESPIXED INCOME	Lever Parme	11-star Family	18-year sweat sarrand	2-10 year UST surged	2.00 west UST surced
Current	8.00	5.70	67	203	249
Bps change	tinchanged	4	3	2	3

EMERGING FIXED INCOME	Kreen '88	Thalland'11	Indanesia '66	Russia MinFin '07	Zeland FB1	
Current Bys change	5.76 -2 Asgentina Pas	4.56 ! Bradt C	11.08 unchanged Mexica Par	12.05 unchanged <u>Vanezucia</u> DCB	6.95.	
Current	137.55	12.99	8.41	17.07		
Bps change	455	5	4	11		

					Currenci	ies				
	Unit Change (In local currency terms)			- Perce	Percent Change (In Dollars per Unit Terms) -					
	9-Iam	8-Jan	9-Jan	8-Jan	This week	This month	This year	In '01	[m '80	
Japan	132.33	132,83	0.4%	-1.3%	-1.0%	-0.5%	-0.5%	-15.1%	-11.9%	
Euro	0.8923	0.8934	-0.1%	0.0%	-0.3%	0.3%	0.3%	-5.6%	-6.3%	
Hano Yen	118.04	118.64	-0.5%	1.2%	0.7%	1.1%	1.1%	8,4%	4,4%	
UK	1.4418	1.4394	0.2%	-0.1%	-0.4%	-0.9%	-0.9%	-2.6%	-7.7%	
Australia	0.5226	0.5235	-0.2%	-0.9%	0.4%	2.7%	2.7%	-8.956	-14.9%	
Canada.	1,5954	1.5961	0.0%	0.0%	0.05%	-0.1%	-0.1%	-6.3%	-3.7%	
Gold	279.25	279.05	0.1%	0.3%	0.156	0.1%	0.1%	2.4%	-5.5%	
Theiland	44.11	44.085	-0.1%	-0.5%	-0.5%	0.3%	0.3%	-1.9%	-15.7%	
Indonesia	10,420	10425	0.0%	-0.5%	0.0%	-0.2%	-0.2%	-7.5%	-38.5%	
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Philippines	51.55	51.70	0.3%	-0.5%	0.124	0.0%	0.0%	-3.1%	-24.1%	
South Korea	1,307	1305	-9.2%	-0.6%	-0.2%	0.5%	0.5%	-3.8%	-11.4%	
Taiwan	35.00	34.99	0.0%	-0.3%	-0.1%	0.0%	0.0%	-5.4%	-5.5%	
Singapore	1.8460	1.8485	0.155	-0.2%	-0.1%	0.0%	0.0%	-6.5%	-4.1%	
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Brazil	2.3760	2.3740	-0.1%	-2.0%	-1.9%	-2.8%	-2.8%	-18.5%	8.4%	
Mexico	9.1990	9.1908	-0.1%	0.5%	-0.4%	0.5%	-0.5%	5.1%	-1.4%	
Chile	667.15	663.15	-0.6%	-1.2%	-2.2%	-0.9%	-0.9%	-15.2%	-8.3%	
Colombia.	2,310.90	2311.00	0.0%	-0.5%	-0.4%	-1.5%	-1.5%	-1.9%	-19.3%	
Venezuela	763.50	763.50	0.0%	-0.1%	-0.1%	-0.8%	-0.8%	48.3%	-7.8%	
Poland	3.9852	3.9618	-0.6%	-1.0%	-2.1%	-0.6%	-0.6%	4.1%	0.1%	
Hungary	273,75	273.30	-0.2%	-0.3%	-0.4%	0.5%	0.5%	2.0%	-11.0%	
Czech	36.175	36.130	-0.1%	-0.7%	-0.4%	-1.5%	-1.5%	5.2%	-5.1%	
Russia	30,542	30.622	0.3%	-0.3%	0.0%	-0.2%	-0.2%	-6.8%	-3.6%	
South Africa	11.3300	11.4210	0.8%	0.4%	6,4%	5.5%	5.5%	-57.9%	-23.5%	
Turkey	1,397,000	1,392,500	-0.3%	0.3%	1.2%	4.0%	4.0%	-117.1%	-23.6%	

			I	quities (In	local curr	ency terms	,		
	Uait Ch	iange	-	Pr	rcent Change	-			
	2-fan	8-Jan	9-Jan	8-Jan	This wk	This me	This yr	In '01	Ln 100
Dow	10151	10151	0.0%	-0.5%	-1.1%	1.3%	1.3%	-7.1%	-6.2%
Nasdaq	2056	2056	0.0%	0.9%	-0.2%	5.4%	5.4%	-23.1%	-39.3%
Militari	10664	10696	-0.3%	-2.3%	-1.9%	1.2%	1.2%	-23.5%	-27.2%
FT-SE 109	5217	5250	-0.6%	-0.8%	2.0%	0.0%	0.0%	-10.2%	-10.2%
DAX	5251	5236	0.3%	0.1%	-1.3%	1.8%	1.8%	-19.8%	-7.5%
CAC-40	4565	4568	-0.1%	-1.0%	-2.5%s	-1.3%	-1.3%	-22.0%	-0.5%
Thailand	319	319	0.2%	0.3%	1.1%	5.1%	5.1%	12.9%	-44.1%
Endonesia	391	388	1.0%	-0.3%	1.6%	-0.1%	-0.1%	-5.8%	-38.5%
Malaysia	700	692	1.2%	-0.7%	1.0%	0.6%	0.6%	2.4%	-16.3%
Philippines	1184	1187	-0.3%	-0.4%	-0.5%	1.3%	1.3%	-21.8%	-30.3%
Hong Kong	11441	11714	-2.3%	-1.5%	-2.2%	0.4%	0.4%	-24.5%	-11.0%
South Korea	752	735	2.3%	-2.2%	0.5%	8.3%	8.3%	37.5%	-50.9%
Taiwan	5109	5109	0.0%	0.0%	0.0%	0.0%	0.0%	7.7%	-43.9%
Singapore	1686	1704	-1.0%	0.5%	0.4%	3.9%	3.9%	-15.7%	-22.3%
China.	156	161.01	-3.2%	-4.6%	-7.8%	-9.1%	-9.1%	91.5%	136,2%
Brazil*	14168	14168	0.0%	-1.5%	-1.1%	4.3%	4.3%	-11.0%	-10.7%
Argentina*	343	343	0.0%	0.0%	0.0%	16.2%	16.2%	-29.1%	-24.3%
Mexico*	6641	6641	0.056	1,2%	0,4%	4.2%	4,2%	12.7%	-20.7%
Chile	99	99	-0.1%	-1.8%	-3.1%	-9.6%	-9.6%	13.2%	-32.6%
Colombia	1059	1059	0.0%	0.7%	0.7%	-1.1%	-1.1%	50.2%	-28.6%
Venezuela	6612	6612	0.0%	-0.2%	-1.4%	0.6%	0.6%	-3.7%	26.0%
Poland	15588	15149	2.9%	-0.4%	3.8%	12.0%	12.0%	-22.0%	-1.3%
Hungary	7392	7326	0.9%	-0.1%	4.7%	3.7%	3.7%	-9.2%	-11.0%
Czech	403	401	0.3%	-0.8%	1.1%	2.1%	2.1%	-17.5%	-2.3%
Russia	292	289	1.0%	4.3%	5,4%	12.2%	12.2%	81.5%	-18.2%
South Africa	10653	10767	-1.1%	-0.1%	-1,4%	2.0%	2.0%	25.4%	-2,5%
Turlogy	14421	14879	-3.1%	-0.8%	1.4%	4.6%	4,6%	46.0%	-37,9%
Greece	2575	2602	-1.0%	-1.4%	-2.7%	-0.6%	-0.6%	-23.5%	-38.8%

^{*} Equition begin tracing in Brazil, Argentina, and Mexico at 8.20 a.m., 9.00 a.m., and 8.30 a.m. Eastern time respectively.

From:

Byrne, Kathleen

Sent:

Tuesday, December 18, 2001 8:05 AM

To:

DL Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Enrique Perez. (E-mail); Eric H. Otto (E-mail); J.P. Reid; Jay Hoffman; Meg Lundsager, Philippa Malmgren;

T.J. Shevlin

Subject:

AM Global Financial Markets - December 18, 2001

The themes of broad yen weakness, selling of longer-dated U.S. Treasuries, and thin, end-of-year trading conditions persist.

Foreign Exchange: The yen is weaker across the board, moving convincingly above the Y 128 level against the dollar to fresh three-year lows. Participants cited yesterday's comments by Japanese FinMin Shiokawa and Vice FinMin Kuroda. conveying apparent acceptance of a weaker yen, and discounted EconMinTakenaka's lone assertion that the yen's exchange rate was nearing levels compatible with fundamentals. Although shorter-term speculative accounts took profits above the Y128 level, dealers continue to expect a fairly rapid move in dollar/yen above Y130, once rumored options barriers around that level are broken through. Although the dollar and the euro are little changed against most other currencies, market talk that British Petroleum may buy Enron-owned gas stations in Germany was cited as future support for the euro; dealers took in stride today's Financial Times reports of a possible flood of counterfeit euro notes produced by eastern European countries and noted that euro notes will be accepted at stores in the United Kingdom after Jan. 1.

Japan: Participants are focusing on the BOJ's two-day policy meeting, which concludes tomorrow. FinMin Shiokawa said. today that "we are strongly asking the BOJ to provide abundant liquidity to the banking system" and called on the central bank to provide more than 14 trillion yen in liquidity in the run-up to year-end, comments which foreign exchange market participants also took as tacit approval to sell the yen.

Emerging Asia: In contrast to recent weeks, emerging Asian currencies are beginning to respond negatively to the yen's depreciation. Today, the New Taiwan dollar fell to a four-month low against the U.S. dollar. After outperforming the year for a number of weeks, the Korean won depreciated 0.6% yesterday and was little changed overnight.

Europe: Euro-area consumer price inflation for November was on expectations, but area industrial production fell by more than expected. As a result, euro-area sovereign debt is rallying, with yields 1 to 7 bps lower and short ends outperforming. Implied yields on near-dated euribor futures contracts (March and June) are 3 to 4 bps lower.

Commodities: In very thin trading, crude oil prices are consolidating ahead of the release of API data late this afternoon.

U.S. Assets Overnight

The front-month DJIA, Nasdaq 100, and S&P 500 futures contracts are all trading moderately higher, suggesting positive movement in prices at the New York open. Treasury prices are little changed to modestly lower, the long bond outperforming. The ten-year yield rose to a five-month high, reflecting hedging activity by mortgage investors.

Today's Events:

Actual

Consensus Expectation

Previous Period

Two-day BOJ board meeting starts - no change expected but a few contacts look for tinkering at the margins to increase

ECB President Duisenberg gives quarterly testimony before the European Parliament at 10:30 AM.

Euro-area CPI, Nov. final

2.1%

2.1%

Euro-area industrial production, Oct -1.4% m/m

-1.0% m/m

-0.5% m/m

U.S. housing starts, Nov.

8:30 a.m.

1540K

1552K

Two-day Brazilian COPOM meeting starts -- no change in SELIC rate expected



Deservoir 18, 2001

Treasury Startest Armly as they are 2000.

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	_	12/18/01 8	E91 A30
USD versus	1	601 AM	Change
Japanese you		128.06	0.48%
Euro	5	0.9014	0.04%
Sterling	5	1.4560	0.22%
Canadian dollar		1.5688	0.00%
Assesie dellar	3	0.5162	0.12%
Thii bakt		43.8	+0.05%
Indepersion rupials.		10140	-0.44%
Kertan won		1281.9	-0.12%
KIND COLUMN	0016	STATE OF THE PARTY OF	Control of the last
en a l	-		

Other cross rates	8:01 AM	Change
Euro/yen	115.43	0.41%
Eurolderläng	0.619	0.1654

Equities	8:01 AM	Change
S&P Futures	1,139	0.00%
Nikkei-225	10,432	1.05%
Theiland	292.87	-0.22%
Indonesia	374.69	0.49%
Malaysia	664.12	0.32%
Hong Kong	11,487	0.18%
S. Korea	643.76	-0.70%
Taiwan	5,329	-2.33%
Selvin desired	96.00	
German Dax	5,078	0.30%
French CAC-40	4,482	-0.07%
U.K. FTSE	5,169	0.47%
Russia RTS	238.11	1.12%
Poland WTG	13,682	0.69%

U.S. Treasuries	8:91.AM	Change bps
3-month bill	1.7524	-1
6-month bill	1.85%	0
2-year	3.15%	3
5-year	4.4856	D
10-year	5.19%	1
30-year	5.57%	2

Credit Overacan	8:01 AM	Change bus
3-month Euriber	3.35%	0
10-yr Genrae bund	4.85%	-2
3-month J-Bills	0.04%	a
10-yr JGB	1,33%	wechanged
3-month U.K. bills	3.90%	unchanged
10-yr U.K. gilt	4.87%	-3

8:01 AM	Change
\$279.00	\$1.30
\$18.53	-50.04

Today's Events: Actual Consensus Expectation Previous Period

Two-day BOJ board meeting starts -- no change expected but a few contacts look for tinkering at the margins to increase liquidity

ECB President Duisenberg gives quarterly testimony before the European Parliament at 10:30 AM.
Euro-area CPI, Nov. final 2.1% 2.1% 2.4%

Euro-area industrial production, Oct. +1.4% m/m -1.0% m/m -0.5% m/m -0.5% m/m U.S. housing starts, Nov. 830 a.m. 1540K 1552K

Two-day Brazilian COPOM meeting starts - no change in SELIC rate expected

Kathleen M.P. Byrne 12/18/01 8:01 AM

For Internal Use Only

6.05

4

96,68

365

Arzontina Par

Current

Current

Bps change

Bps change

4.70

-12

Boul C

13.51

-9

11.08

enchanged

Michiga Par

5.50

2

12.81

unchanged

16.67

-20

Venezuela DCB

7.62

-1

GLOBAL FINANCIAL MARKETS 12/18/01 7:45 AM

		18-Dec	17-Dec			18-Dec	Friday's clo	16	This work		This year	
SPERFORMANCE	-cincolonamental	redoute area	consumption.		gen one	N. SEAS-VOLEN	10 45 A TO 10 TO 1	nonie	eservición (viel o	delation of		April
Yen		128.12	127.53			0.46%	127.38		0.58%		411,99%	
Euro		4.9018	0.9025			0.08%	0.5841		0.26%		-4.33%	
Sterling		1.4558	1,4591			0.22%	1.4550		-0.06%		-1.50%	
Swin		1.6353	1.6336			0.10%	1.6297		0.34%		-1.50%	
Canadian S		1.5691	1.5691			6.00%	1.5612		0.57%		-4.67%	
Asstralian S		0.5167	0.5174			0.14%	0.5198		0.60%		-7.53%	
Korean wee		1286.9	1288.5			-9.12%	1280.9		0.47%		-1.73%	
Indonesian rupiah		10155	10195			-6.39%	10195		-0.39%		-4.96%	
Philippine pese		51.95	52.06			-0.97%	52,06		-0.97%		-3.10%	
Thei bakt		43.90	43.57			0.07%	43.78		0.29%		-8.15%	
Taiwan S		34.66	34.53		-	0.38%	34,45		0.61%		-1.65%	
Polish ziety		3.976	3,970			0.14%	4,006		-0.75%		3,88%	
Russian ruble		30.34	30.34			0.00%	38.34		0.00%		-6.29%	
South African rand		12.265	12.0+6			1,87%	12,200		0.53%		-61.55%	
Mexican peso		9.105	9,113			-0.68%	9.110		-0.05%		5.56%	
Brazilian rest		2.346	2,355			-0.40%	2.376		-1.28%		-20.28%	
COMMODITIES		80,000 /10	- 13 30 -	and the second	200 a to	-	CONT.					
Gold		\$279.60	5278.15			0.52%	\$279.45		0.4156		2,64%	
Кигореан Всена		\$18.58	\$15.58			0.00%	\$18.54		0.2256		-17,71%	
Near Nymes flatures		\$19.40	519.18			1.15%	\$19.23		0.88%		-27,61%	
CRB Index		\$190,94	\$190.94			0.00%	\$191.07		-0.0716		-16.19%	
EOUITIES .	Reconstitution (643693cH	100000	April 10	g se gare	- 100 o 886	Printer of the State	in chair	edecina co	on verify?	5. 16 (5 W/o	H
Day Joseph		9.892	9,892			0.00%	9,811		0.82%		-8.78%	
Nasdag		1,987	1,987			0.00%	1.953		1.2625		-19.55%	
S&P 500		1.134	1,134			0.00%	1,123		1,4129		-14.08%	
Nikkoi 225		10.432	10,323			1,05%	10,513		-0.7659		-24.33%	
Japan Topix		993	389			0.37%	1,007		-1.40%		-22.67%	
German DAX		5.092	5,068			0.47%	4,909		3.72%		-20.85%	
French CAC-48		4,489	4,485			0.0956	4,340					
U.K. FTSE-100		5,165	5,136			0.55%	5,861		3.44% 2.05%		-24.25% -17.00%	
H.K. Hung Song		11,487	11,465				11,466		0.18%		-23,91%	_
						0.18%						
Kervan Kospi Taiwan Weighted		644	648 5,456			-0.70%	665		-3.22% -2.87%		27.57%	
		5,329				-2.33%	5,487				12,34%	
Polish Wig		13,685	13,588			0.73%	13,542		1.06%		-23.32%	
South African JSE		14,523	10,406			1.13%	10,486		1.13%		26.39%	
Mexican Bolso		6,271	6,271			0.00%	6,139		2.16%		10.9654	
Brazilian Bevespa		12,912	12,912			0.00%	12,959		-0.36%		-15,38%	_
Securitors compared	September 1	SUTTON BUILDING	re describe	STEEL STEEL	guzes	Jacoby Co.	Lagran S (S	A TOTAL OF	PANTON CANA	NOTICE SERVICE	NATITIO 20	677
Overnight rate	1.80 -12	0.05		0	4.58	-3	2.30		3.30	4	2.16	
3-month bill	1.75 -1	0.05			3.90	0	3.23	-2	3.36	ő	2.01	
2-year bond	3.15 1	0.04		.7	4.63	-1	3.69	-5	3.69	-6	3.36	
5-year bond	4.48 0	0.46		-7	4.95	3	4.33	-5	4.39	4	4.80	
H-year bond	5.19 1	1.33		-3	4.95	-2	4.93	-1	5.11	-2	5.54	
36-year bend	5.58 2	2.49		0	4.56	4	5.30	-1	5.55	-1	5.76	
777147 41114	200 8	2.47	0.49		4129		3.30	-1	3,23	-1	2116	_
LS FIXED INCOME	Lyear Fan	nie las	ear Female	\$1960	10-year s	ma spread	3.10 se	or UST's	pecart 3	30 year	UST spread	ìή
Current	0.00		5.55		80			265		243		
Bps change	unchanged		-2		-15			0		2		
												_

					Currence	ies			
		terms) Percent Change (In Dollars per Unit Terms)							
	18-Dec	17-Dec	IR-Dec	17-Dec	This week	This month	This year	In '00	In '92
Jupan	128.12	127.53	-0.5%	-0.1%	-0.6%	-3.8%	-12.0%	-11.9%	11.3%
Euro	0.9018	0.9025	-0.1%	-0.2%	-0.3%	0.6%	-4.4%	-6.3%	-14.3%
Euro Yest	115.53	115.08	0.4%	0.026	0.4%	4.4%	7,3%	4.4%	-22,3%
UK	1.4558	1,4591	-0.2%	0.3%	0.1%	2.1%	-2.5%	-7.7%	-2.5%
Germany	2.1690	2.1672	-0.1%	-0.2%	-0.3%	0.6%	4.5%	-6.8%	-13.8%
Australia	0.5167	0.5174	-0.1%	-0.9%	-0.6%	-1.0%	-7.5%	-14.9%	-0.5%
Canada	1.5691	1.5691	0.0%	0.0%	-0.6%	0.2%	-4.7%	-3.7%	-1.0%
Gold	279.60	278.15	0.5%	0.3%	0.4%	1.9%	2.6%	-5.5%	-0.4%
Thoiland	43,90	43.87	-0.1%	-0.2%	-0.3%	0.1%	-1.2%	-15.7%	-2.3%
Indonesia	10,155	10195	0.4%	0.0%	0.4%	3.0%	-5.0%	-38.5%	14.5%
Malaysin	3.80	3.80	0.0%	0.4%	0.6%	0.0%	0.0%	0.056	0.0%
Philippines	51.55	52.06	1.0%	0.0%	1.0%	0.8%	-3.1%	-24.1%	-4.2%
South Korea	1,287	1289	0.1%	-0.6%	-0.5%	-1.5%	-1.7%	-11.4%	6.0%
Taiwan	34.66	34,53	-0.4%	-0.2%	-0.6%	-0.7%	-4.6%	-5.5%	2.7%
Singapore	1.8396	1.8370	40.1%	0.0%	-0.1%	-0.4%	-6.1%	-4.1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.3455	2,3550	0.4%	0.9%	1,3%	6.0%	-20.3%	-8.0%	-33.1%
Mercico	9.1050	9.1125	0.1%	0.0%	0.1%	1.3%	5.6%	-1.4%	4.1%
Chile	662.75	665,45	0.4%	0.8%	1.2%	3.4%	-15.5%	8.3%	-10.7%
Colombia	2,305.00	2305.00	0.0%	0.7%	0.7%	-0.3%	-3.1%	-19.3%	-17.3%
Venezuela	752,25	752.25	0.0%	-1.0%	-1.0%	-0.7%	-7.5%	-7.8%	-13.0%
Poland	3.9755	3.9700	-0.1%	0.956	0.7%	2.2%	3.8%	0.1%	-15.1%
Hungary	271.70	272.32	0.2%	0.3%	0.5%	3.2%	3.2%	-11.0%	-14.5%
Czech	35.123	35,383	0.7%	1.9%	2.6%	4.9%	6.7%	-5.1%	-45.7%
Russia	30.335	30.335	0.0%	0.0%	0.0%	-1.3%	-6.3%	-3.6%	-25.2%
South Africa	12.2650	12.0400	-1.9%	0.4%	-0.5%	-19,5%	-61.6%	-23.5%	-4.5%
Turkey	1,450,000	1,452,000	0.1%	0.0%	0.1%	2.0%	-116,3%	-23.6%	-41.9%
Greece	377.88	377.59	-0.1%	-0.2%	-0.3%	0.6%	-4.6%	-10.2%	-83.9%

	Equities (In local currency terms)								
	Unit Change Percent Change								
	18-Dec	17-Dec	18-Dec	17-Dec	This wh	This me	Dix ye	In '80	In '99
Dorr	9892	9892	0.0%	0.8%	0.8%	0.4%	-8.3%	-6.2%	25,2%
Nanduq	1987	1987	0.0%	1.8%	1.8%	2.9%	-19.6%	-39.3%	85.6%
Nikkci	10432	10323	1.1%	-1.8%	-0.8%	-2.5%	-24.3%	-27.2%	36.8%
FT-SE 109	5165	5136	0.6%	1.5%	2.0%	-0.7%	-17.0%	-10.2%	17.8%
DAX	5092	5068	0.5%	3.2%	3.7%	2.0%	-20,9%	-7.5%	39.1%
C4C-49	4489	4485	0.1%	3.3%	3,4%	0.3%	-24.2%	-0.5%	51.1%
Thailand	293	294	-0.2%	-0.2%	-8,4%	-3.2%	8,8%	-44.1%	35.4%
Indonesia	375	375	0.0%	0.0%	0.0%	-1.5%	-10,0%	-38,5%	70.1%
Malaysia.	664	664	0.0%	0.0%	0.05%	4.15%	-2.3%	-16.3%	38.6%
Philippines	1124	1126	-0.1%	0.0%	-0.0%	-0.4%	-24.8%	-30.3%	8.8%
Hong Kong	11487	11466	0.2%	0.0%	0.2%	1.8%	-23.9%	-11.0%	68.8%
South Korea	644	648	-0.7%	-2.5%	-3.2%	0.0%	27.6%	-50.9%	82.8%
Taiwan	5329	5456	-2.3%	-0.6%	-2.9%	20.0%	12.3%	-43.9%	31,6%
Singapore	1584	1558	1.6%	0.0%	1.6%	7.1%	-17.8%	-22.3%	78.0%
China	172	168.43	2.4%	1.0%	3.4%	4.3%	92.6%	136.2%	32.0%
Brazil*	12912	12912	0.05%	-0.4%	-0.4%	-0.2%	-15,4%	-10.7%	151.9%
Argentina*	257	257	0.056	1.5%	1.5%	26,7%	-38,4%	-24.3%	28.0%
Mexico*	6271	6271	0.0%	2.2%	2.2%	7.5%	11,4%	-20.7%	80.1%
Chile	110	110	0.0%	0.0%	0.0%	-0.2%	13.8%	-32.6%	41.8%
Colombia	954	954	0.0%	0.1%	0.1%	2.6%	33,8%	-28.6%	-9.3%
Venezuela.	6490	6490	0.0%	1.1%	1.1%	1.7%	-4.9%	26.0%	14.8%
Poland	13685	13588	0.7%	0.3%	1.1%	-2.5%	-23.3%	-1.3%	41.3%
Hungary	7161	7192	-0.4%	0.0%	-0.4%	0.5%	-8.8%	-E1.0%	39.8%
Czech	382	384	-0.5%	-1.7%	-2.2%	-2.8%	-20.3%	-2.3%	24,2%
Russia	238	235	1.2%	2.7%	3.9%	5.2%	66.3%	-18.2%	197,4%
South Africa.	10523	10496	1.1%	0.0%	1.1%	11.5%	26.4%	-2.5%	57.3%
Turkey	12762	12762	0.0%	0.0%	0.0%	9.7%	35.2%	-37.9%	485.4%
Grecce	2555	2563	-0.3%	4.3%	-0.7%	-5.2%	-24.6%	-38.8%	102,2%

^{*} Styrikis begin tricking in Strant, Argentina, and Moxtos at 0:00 a.m., 9:00 a.m., and 9:30 a.m. Eastern time respectively.

From: Cetina, Jill

Sent: Friday, December 07, 2001 4:45 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Weekly Report, Dec 3-7

Summary: Treasuries retraced last weak's rally. The Daw and NASDAQ closed above the 10,000 and 2,000 levels for the first time since August, extending U.S. equities' built run. Sentiment towards Japon plambed new level—sending dollariyen higher. Argentine measures to stem capital flight appear to be compounding its problems but there is no evidence of contagion. The rand and South African external and domestic debt remain under pressure as Zimbaliwe woes, reduced SARB transparency, and exchange controls weigh.

Next week: Next week, the Tankan survey as well as German and U.S. result sales will be focal points. A 25 bps ent at Twesday's FOMC meeting is expected but the accompanying statement will be key. Argentina's ability to service its debt and possible changes to its fa regime will continue to garner market attention.

This Heak:	Hemisy:	Tarsdeye	Wednesdays	Donás:	Friday
Argie evens – back beliday and/or	IP nuckinery indes	French CP1	/PTukan survey	German retail sales	Jupan industrial pro
devaluative?	UK PM	UK IIPI-X	German current account	UK resali rahe	French industrial pr
		Germiny 22 W survey	UK samploymen	US PM	РМС'ентем асам
		FOMC recoving	German 3-year assets	U.S. retail auleu	E 8 C21
			US caren scaza	U.S. initial claims	U.S. Odweriji prod

Sentiment towards Japan continues to deteriorate. Next week's Tankan report is likely to reinforce that trend.

- Following on S&P's cut of Japan's long-term local currency rating on Nov 294. Moody's cut Japan's rating to Aa3 from Aa2, the second downgrade by Moody's in three months. Contacts look for further downgrades to single A, which could force some selling of JGBs by foreign pension funds and other accounts.
- The impact of Enron on the banking system and collapse of a construction company. Acid, refocused attention on the credit
 quality of the banking system as the TOPIX banking sub-index closed near fresh lifetime lows.
- Q3 GDP released this week confirmed the economy is, once again, in a full-blown recession, the fourth since 1989.

Flows remain light in foreign exchange markets in the run-up to the year-end. However, worsening sentiment towards Japan, increasing chat from LDP and BOJ officials about foreign asset purchases as a policy option and gains in U.S. equities set the tone this week – weakness in the year-strength in the dollar.

- Contacts report that real money accounts have been largely absent from the market with speculative and model accounts driving price action.
- While still at low levels on Friday implied volatility on one-month dollar/yen options ticked up to a 2-month high, suggesting participants look for further yen weakness ahead given growing signals out of Japan that some official action to stem deflationary pressure may be in store. Some contacts report an LDP working group has been established to examine purchases by the BOJ of foreign bonds, suggesting Japan is seriously considering this option.

The economic calendar in Europe is light next week but eventful with Germany's ZEW survey watched as a leading indicator on Germany's IFO business sentiment survey. October German retail sales will also be closely watched for insight into prospects for Q4 German GDP growth.

No change in monetary policy from ECB or BOE this week as the market expected. However, Euro-area sovereign debt did

weaken post-ECB announcement - suggesting some disappointment in the bond market with the ECB's decision.

Friday's much-unticipated November employment report came in worse-than-expected. However, non-employment related data – including non-manufacturing NAPM and Michigan consumer confidence – were better-than-expected. Next week's retail sales data and the FOMC statement could help clarify recovery prospects.

- Despite the mixed data, Treasury market participants remain skeptical the U.S. economy is recovering and attribute the
 ongoing sell-off in Treasuries to high volatility in the market and poor liquidity conditions. Some contacts note that the
 over-capacity that incited the corporate profit recession and subsequently economic recession has yet to be worked off.
 However, participants in other asset markets seemed more optimistic this week about prospects for a U.S. recovery.
- Equity markets continue to price in a recovery with the DHA and NASDAQ both breaking back above the psychological 10,000 and 2,000 levels, respectively, this week. However, after breaking these levels on Wednesday both indices have traded sideways – thus, technical analysts will continue to monitor closely the major indices.

Volatility in Treasury and Eurodollar interest rate futures markets remains high. Treasury yields rose 33 to 40 bps on the week, but the 2 to 10-year Treasury curve steepened by 6 bps on expectations for further Fed easing. In fact, contacts noted if the market believed the economy was recovering the curve should flatten, not steepen.

- Dealers note poor liquidity conditions in the run-up to year-end exaccerbating price movements. Dealers who account for 70% of volume among Treasury dealers remain risk-adverse in the run-up to their book closing on December 31%.
- Furthermore, sizable activity from holders of mortgage backed securities selling Treasuries as prices fall and buying
 Treasuries as prices rise to adjust their hedges in the absence of activity from other accounts in the run-up to year- end —
 has been cited as a factor increasing Treasury market volatility.
- Dealers unanimously look for a 25 bps cut to 1.75% at next Tuesday's FOMC meeting. What is more, 16 of 24 primary
 dealers reportedly expect another 25 bp cut at the FOMC's end-January meeting. However, interest rate futures extended
 their pricing in of Fed tightening in 02' with the spread between the Jan 02' and Dec 02' Eurodollar interest rate futures
 contract widehed by 40 bps on the week to 217 bps.

On the week U.S. equities rallied, credit spreads have tightened and consumer credit rose. However, other changes of monetary policy transmission became more restrictive as bank lending standards to corporates continue to tighten, Treasury yields once again rose dramatically and the trade-weighted dollar firmed 0.8%.

 Some contacts suggest lighter monetary conditions could retard an economic recovery or require even more Fed easing given the continued absence of inflationary pressures.

Argentina's troubles remain contained. However, the GOA's "temporary" measures — capital controls and effective confiscation of private pension, corporate and bank deposits and bank assets both on- and off-shore — remain negative for the real economy, consumer confidence and social stability as well as difficult to unwind.

The results of Economy Minister Cavallo's last ditch plea to the IMF today remain unclear. However, if Fund management
holds the line of no Q4 disbursement due to missed program targets it appears unlikely that the government will be able to
continue to service its foreign currency debt and prevent further capital flight. Speculation about Cavallo's resignation, a
devaluation followed by dollarization and then default continues to circulate as do rumors of the failure of Banco de
Galacia and a bank holiday on Monday.

From: Cetina, Jill

Sent: Thursday, December 06, 2001 12:42 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Noon Report, Dec 6th

-Claims data mixed; equities mark time; yen weakens; Treasury prices lower. US Markets

U.S. Economy: While initial claims surprised on the high side, there was much discussion about the decline in continuing claims which fell 349,000 in the last week of Nov to 3.6 million. Despite today's sharp drop, continuing claims data remain at levels consistent with recession, and unemployment is still expected to rise. Signs of greater stability in labor markets and manufacturing may be emerging, but a 25 bps cut at next week's Dec 11 FOMC meeting remains priced in to Dec Fed Fund futures. (KByrne, 2-2054)

U.S. equities were narrowly mixed in moderate trading ahead of tomorrow's release of November employment data. Enron Corp. fell 24% to S0.77, while Dynergy Inc. fell 0.8% to \$28.76. The best stock performers were software, electrical equipment, communication equipment, bank and financial issues. The worst stock performers were oil, semiconductor, retail store, beverage and entertainment issues. (JSharer 2-2042)

Treasuries weakened further in reaction to the continuing claims data which some dealers saw as suggesting tomorrow's employment report might be better than previously expected. Mid-morning comments from NY Fed President McDonough that he did not know if the economy has reached a turning point provided fleeting support to Treusury prices. Dealers note liquidity the market remains extremely poor. However, as lunchtime approached real money accounts, some central banks and some hedge funds buying 2- year notes even as swap desks sold 2- and 5- year notes. Prices, however, remain to 1/8 to 1 1/8 points lower. (JCetina 2-2017)

Global Markets

FX: Negative sentiment towards Japan sparked off by the overnight announcement of the bankruptcy of Aoki (a Japanese construction company) has driven the yen sharply lower, particularly against the euro. Traders report that Japanese investors consider the euro/yen play as the least risky given the positive curry. The yen has weakened to 4- and 2-month lows against the USD and euro, respectively, ahead of the release of Q3 GDP data overnight with expectations ranging from -0.5% to -1.1%. The euro pared its losses against the dollar as short term players were said to be lightening their short euro positions ahead of tomorrow's US employment report. (LQuina 2-9122)

Europe: German bund yields rose 2 to 9 bps, pressured by firm equity markets and expectations for economic recovery. The ECB met today and kept rates unchanged as anticipated. ECB President Duisenberg indicated conditions were in place for a rebound in 2002 and that current levels of interest rates are appropriate. U.K. gilt yields were unchanged to up 12 bps as a rise in Nov house prices weighed on the market. European bourses were modestly higher, with the FTSE outperforming. (JSharer 2-2042)

Commodities: Front-month Brent and Nymex futures prices are lower for the 3rd straight session. Our contacts question private Russian oil companies' intentions vis-a-vis their government's official offer to cut 150,000 bpd. They also cite Norway's postponement of a final decision on its own output until later this month, rising U.S. stocks and persistently mild weather as factors weighing on prices. (KByrne, 2-2054)

Latams: Contacts note a Monday decree requires private pension funds to invest 90% of their monthly inflows in Letes which is expected to provide about \$1.5 billion in new financing to the GOA. The money could help the GOA squeek through Dec without defaulting in spite of the IMF's refusal to disburse the Q4 tranche in light of missed targets. Some contacts noted talk from Medley GA the GOA will devalue to 1.5 and then dollarize and this change would precipitate EconMin Cavallo's resignation. There are rumors President de La Rua is holding an emergency cabinet meeting and talk that Cavallo will resign today. Activity in the NDF market remains limited as debates about the appropriate S/ARS fixing level continue. (JCetina 2-2017)

Today's Events:	Actual	Previous	Consensus
U.S. fnitfal jobless claims, week Dec 1 U.S. Q3 non-farm productivity	475,000	revised to 493K from 488K 2.7%	456K 2.1%
U.S. Q3 unit labor costs	2.3%	1.8%	2.3%
U.S. factory orders, Oct.	7.156	revised to -6.5% from -5.8%	795

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Sent: Thursday, December 06, 2001 12:42 PM

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From: Cetina, Jill

Sent: Wednesday, December 05, 2001 12:57 PM

To: _DL_Market Group; Andrew Sacher, ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Noon Report, Dec 5th -- "Recession over" mood prevails

- "Recession over" mood prevails as service sector NAPM surprises on upside.

DJIA and NASDAQ break 10,000 & 2,000 levels; Euro stocks extend gains. USD higher; Treasuries prices gap lower (once again).

U.S. Markets Non-manufacturing NAPM came in 8 points better-than-expected, rising to just above 50, which suggests expansion. Like the Euro-area and UK service sector PMI releases earlier this morning, the overall activity reading was better-than-expected but the employment component of the NAPM survey remained weak. Thus, triggering the debute between those who believe labor data are a lagging indicator and those who believe the Fed will continue to cut rates if unemployment is on the rise.

Treasuries extended their earlier losses and are currently down 1/2 to 2 1/2 points on the data and the DJIA's and NASDAQ's rally. Several dealers expressed confusion about the source of the massive selling of Treasuries. Some thought holders of mortgage backed securities were involved, selling Treasuries to lighten up their hedges. One contact noted he thought the NAPM data might have been leaked and that 10-year bond futures seemed to lead the market lower. Market positioning appears to have exacerbated today's move as the market was long going into Friday's employment report and next week's Fed meeting, looking for rising unemployment and a 25 bps cut. Dealers report stop-loss levels were triggered. The shape of the 2- to 10-year curve is little changed despite the self-off. (I/Cetina 2-2017)

U.S. equities surged in heavy trading, led by strength in tech stocks and positive reaction to today's data. The Dow rose above the 10,000 level for the first time since late August and the Nasdaq climbed above the 2000 level, marking a 4-month high. Enron Corp. rose 37% to \$1.19, while Dynergy Inc. fell 1.6% to \$30.64. The best performers were software, semiconductor, financial, and retail store shares. (JSharer 2-2042)

Global Markets

FX: The dollar is up sharply against the European currencies, with the Swiss franc undperforming amid optimism triggered by today's data. Participants report that technical, momentum and model driven trades dominate. Corporate and real money (e.g., mutual funds) accounts have been relatively quiet, reportedly awaiting Friday's employment data to reassess their fundamental views. The Swiss franc's underperformance was attributed growing expectations of a 50 bps SNB rate cut on Friday. Rumors of Asian central bank buying of euros are circulating again this week. (LQuinn 2-9122)

Europe: German bund yields rose 18 to 22 bps, pressured by strength in equities, better European data and sacep losses in Treasuries. The ECB policy board is scheduled to meet tomorrow and no change in policy is anticipated. Similarly, U.K. gilt yields climbed 11 to 20 bps. The BOE's MPC, as expected, kept rates steady. Sweden's Riksbunk also kept rates steady. European bourses were higher by 2.3% to 4.3%, with the DAX outperforming on gains in chipmaker and software issues. (JSharer 2-2042)

Latin America: EconMin Cavallo suggested today he thought IMF funds would be forthcoming despite comments from Fund sources yesterday to the contrary. The Merval is up 7.5% with some contacts noting local interest to convert pesos into other assets. The Bruzilian real is slightly weaker. (JCetina 2-2017)

 Today's Events:
 Actual
 Previous Period
 Consensus

 U.S. service sector NAPM, Nov.
 51.3
 40.6
 42.5

 U.S. Challenger survey — Corporate layoffs down 25%. 181,412 layoffs in Nov versus 242,192 in October

From: Cetina, Jill

Sent: Tuesday, December 04, 2001 12:27 PM

To: _DL_Market Group; Andrew Sacher, ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Noon Report -- Dec 4th

- Quiet end of year trading; markets verge on boring.

-Market notes NY Post story about Secretary O'Neill; but not a trading factor.

U.S. Markets

Treasuries: After weakening earlier this morning on profit taking, Treasury prices are mixed with the 2 to 10-year curve modestly flatter. Dealers report flows as light and note Treasuries are currently running into technical resistance to posting further gains. Despite a Fed coupon pass in the 02' sector the 2-year note is modestly underperforming, (JCetina 2-2017)

U.S. equities edged higher in active trading, led by gains in technology stocks. Enron Corp. climbed 107% to \$0.80 on news of a \$1.5 billion line of credit from J.P. Morgan and Citigroup, while Dynergy Inc. rose 11% to \$30.25. The best stock performers were electrical equipment, semiconductor, computer, communication equipment, natural gas, oil and bank issues. (JSharer 2-2042)

Global Markets

FX: In late morning trading, the dollar added to the guins it made yesterday against the pound and the curo. By contrast, Canadian dollar regained much of the ground it lost against the dollar yesterday with participants commenting that the Canadian dollar hud appeared oversold. No new developments were cited by participants as factors in the fx market. (LQuinn 2-9122)

Europe: U.K. gilt yields were down 1 to 3 bps despite news of stronger-than-expected house prices and retail sales in November. The BOE's MPC is scheduled to meet today and tomorrow but is generally expected to keep rates steady. German bund yields were down 1 to 5 bps, with the 10-year bund yield at its lowest level in nearly three weeks, in response to poor Euro-area consumer confidence, greater than expected PPI deflation and rising unemployment. The ECB policy board is scheduled to meet on Thursday but no change in policy is anticipated. European bourses were higher by 0.6% to 1.5%, with the CAC 40 outperforming. Traders noted gains in airline and technology issues. (JSharer 2-2042)

Commodities: Our contacts cited two factors, Middle East tensions and yesterday's more substantial indication by Russia of further cuts to output, as supporting crude oil prices today in a new, somewhat higher range. Participants await the release of API stock figures later this afternoon, but by and large, Russia remains the focal point. (KByme 2-2054)

Latin America: Prices on Argentine debt remain higher from short covering. Some contacts note that the results of the swap indicate a large participation on the part of the Spanish banks in Argentina's local swap. With regard to the next phase of the swap, an S&P analyst noted that "the truth is that no one believes that Argentina can really (complete) the international part of the swap in three months." Contacts noted talk that Friday's deposits outflow exceeded \$1 billion, more than the \$700 million Clarin reported over the weekend. One contact noted that locals could buy shares on the Merval and sell ADRs in NY to effectively circumvent fx restrictions and create off-shore dollar receivables. The Brazilian real continues to firm, approaching a 4-month high. (JCetina 2-2017)

From: Cetina, Jill

Sent: Tuesday, December 04, 2001 7:53 AM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Morning Report, Dec 4th

- Moody's cuts Japan's I-term rating (again) - following S&P's cut last Wednesday.

Markets generally quiet; equities higher; G-7 debt mixed; USD little changed.
 Global Markets

Japan: Moody's cut Japan's credit rating overnight to Aa3 from Aa2 and indicated Japan may be downgraded further. Contacts expect a further downgrade of Japan's long-term domestic currency rating to single A by Moody's which could trigger some forced selling of JGBs by foreign pension funds and other accounts. Contacts note S&P is also expected to downgrade Japan's rating again soon. The JGB curve steepened 5 bps in response to the Moody's news. Dealers reported accounts shortening the duration of their JGB holdings to pare back their exposure to credit risk. Yields on JGBs continue to trade above the yen swap rate -- suggesting the market views the credit risk of the GOJ as higher than the average credit risk of bank counterparties in the swap market and has priced in a downgrade to single A. The BOJ drained a further Y2 trillion, bringing current account balances to Y10 trillion, or Y1 trillion above Friday levels when the BOJ sought to aid Enron-stricken money management funds. The FSA Mori's estimated Enron's bankruptcy exposes Japan's banks to a combined loss of about \$800 million. Banking stocks continue to underperform, declining a further 3.5% on the TOPIX. The Nikkei closed higher.

Emerging Asia: Gains in chip makers and mobile telecom shares helped bourses in Hong Kong, Singapore, and Taiwan to rally. Talks between Korea's Hynix and Micron reportedly are advanced, suggesting a possible merger between the two to form the largest chip maker in the world which could help alleviate over-capacity in the industry globally. However, the Korean KOSPI closed lower, weighed on by losses in Hyundai shares as a labor strike continues. Emerging Asian currencies were little changed.

Europe: European bourses are modestly higher. The UK FTSE is outperforming despite losses in British Telecom shares. BT announced it would lay-off 13,000 workers today. Euro-area sovereign debt prices are modestly higher with the back-end outperforming, aided by October Euro-area PPI showing further signs of deflation.

Fx: Euro/dollar traded in a very tight range overnight. Dollar/yen firmed to Y124.37 following news of the Moody's downgrade but has retraced these gains in European trading, reportedly on selling from several U.S. banks. Flows remain light.

LatAm: Prices on Argentine debt are higher this morning on short covering. Some contacts note as a result of the local debt swap only \$2.5 billion and \$800 million is outstanding in the Argie 08' and FRB, with reduced liquidity in the bonds triggering a need to cover shorts. JP Morgan re-weighed the EMBI+, reducing Argentina's weight to 3.6% from 10.6%. The head of the IMF's mission left BA overnight, raising questions about prospects for the Q4 disbursement.

U.S. Markets Dealers report trading overnight in Treasuries as quiet. Treasury prices reportedly have been pressured modestly lower by gains in U.S. equity index futures. Equity index futures are a touch higher but suggest no strong direction to the NY open. Some contacts noted Citigroup and JPMorgan Chase (the two U.S. banks with the largest exposure to Enron) are reportedly providing \$1.5 billion in bankruptey financing to Enron to facilitate its liquidation.

Today's Events:	Actual	Previous Period		Consensus Expectation
French consumer confidence, Nov	-1 L	-14	-15	
Euro-area PPI, Oct y/y	-0.6%	0.7%	-0.39%	
Euro-area unemployment, Oct.	8.4%	8.3% revised to 8.4%	8.4%	

From:

Sharer, James

Sent:

Monday, December 03, 2001 5:19 PM

To:

_DL_Market Group; Andrew D. Sacher, David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 12/3/01

- -- U.S. equities close weaker, worries on Enron exposure.
- Treasury prices strengthen on weaker equities, rising tension in Middle East.
- -- The dollar firmed against the major currencies, supported by strong U.S. economic data.

U.S. Markets

U.S. equity markets closed with moderate losses in active trading, pressured by weakness in financial and insurance issues. J.P. Morgan Chase and Citigroup weakened on concerns over lending exposure to Enron. Enron rose 54% to \$0.40 after declaring bankruptcy and firing 4,000 employees in Houston. Dynergy fell 10% to \$27.17 on news of a \$10 billion lawsuit from Enron. The worst stock performers were electrical equipment, financial, entertainment, bank, communication equipment and computer issues.

Treasury coupon prices were up 1/8 to 1/2 point in relatively light trading, mainly reflecting weakness in the U.S. equity market, the bankruptcy of Enron, concern over Argentina's financial situation and rising tensions in the Middle East. Treasury auctioned today \$16.0 billion 3-month and \$16.0 billion 6-month T-bills to raise \$7.726 billion new cash. The results were as follows:

3-month T-bill awarded rate: 1.735% Coverage ratio: 1.71 times 6-month T-bill awarded rate: 1.765% Coverage ratio: 1.48 times

The 3-month awarded rate was the lowest since 1958 and the 6-month awarded rate was the lowest on record. Separately, Treasury announced it will auction tomorrow \$19.0 billion 4-week T-bills to be issued December 6 and raise \$3.0 billion new cash. In WI trading the new bills were bid at 1.76%.

The December Federal funds futures contract was unchanged at 1.84%, while the January and February contracts fell 1 bps and 2 bps to 1.77% and 1.71%, respectively.

The January crude oil contract rose \$0.65 to \$20.09 a barrel following Israeli retaliation for a weekend terrorist attack. The January natural gas contract fell\$0.07 to \$2.63 per million btu. Spot gold rose \$2.85 to \$277.30 an ounce on escalation of hostilities in Israel.

Global Markets

The dollar appreciated 0.5% against the euro and was 0.6% firmer against the yen, supported by stronger-than-expected U.S. economic data today. The dollar was little changed against the British pound but 0.7% firmer against the Swiss franc.

Latin American equity markets closed firmer, with the Merval index rising 6.1% and the Bovespa climbing 3.1%. Traders seemed to welcome Argentine efforts to stem a run on the bank system. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 875 and 6000 respectively. Fitch cut Argentina's sovereign debt rating to DDD from C. Brazil's real firmed 1.8% to its highest level since late July, aided by news of a \$288 million trade surplus in November.

The EMBI+ spread narrowed 20 bps to 1048 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also narrowed, including Argentina (-204 to 3168), Brazil (-51 to 925) and Mexico (-4 to 353). The Turkey sub-index edged up 8 bps to 792 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
JPN BOJ Minutes of Oct. 29 Meeting		•	
EUR PPI, Oct.		-0.4% m/m	+0.1% m/m
EUR Consumer Confidence, Nov.		-12	-11
EUR Unemployment, Oct.		8.4%	8.3%
UK House Prices, Nov.		+0.2% m/m	-0.5% m/m



GLOBAL MARKET DEVELOPMENTS

Market Room Staff

Week of December 3 - 7, 2001

Treasuries retraced last week's rally. The Dow and NASDAQ closed above the 10,000 and 2,000 levels for the first time since August, extending U.S. equities' bull run. Sentiment towards Japan plumbed new lows — sending dollar/yen higher. Argentine measures to stem capital flight appear to be compounding its problems but there is no evidence of contagion. The rand and South African external and domestic debt remain under pressure as Zimbabwe woes, reduced SARB transparency, and exchange controls weigh.

Next week, the Tankan survey as well as German and U.S. retail sales will be focal points. A 25 bps cut at Tuesday's FOMC meeting is expected but the accompanying statement will be key. Argentina's ability to service its debt and possible changes to its fx regime will continue to garner market attention.

The	e Dollar '	This Week
¥/\$	125.56	1.7%
\$/€	0.8890	0.8%

This Week: Angle events – bank holiday and/or devaluation?	Monday: IP machinery orders UK PPI	Therefore: French CPI UK RPI-X Germany ZEW survey FOMC meeting	Wednesday: JP Tankan survey German current account UK unemployment German 2-year auction U.S. current account	Thursday: German retail sales UK retail sales U.S. PPI U.S. retail sales U.S. initial claims	Eriday: Japan industrial production French industrial production EMU current account U.S. CPI
	٠		U.S. current account	O.S. SERVE CHINE	U.S. industrial production

Sentiment towards Japan continues to deteriorate. Next week's Tankan report is likely to reinforce that trend.

- Following on S&P's cut of Japan's long-term local currency rating on Nov 29th, Moody's cut Japan's rating to Aa3 from Aa2, the second downgrade by Moody's in three months. Contacts look for further downgrades to single A, which could force some selling of JGBs by foreign pension funds and other accounts.
- The impact of Enron on the banking system and collapse of a construction company, Aoki, refocused attention on the
 credit quality of the banking system as the TOPIX banking sub-index closed near fresh lifetime lows.
- Q3 GDP released this week confirmed the economy is, once again, in a full-blown recession, the fourth since 1989.

Flows remain light in foreign exchange markets in the run-up to the year-end. However, worsening sentiment towards Japan, increasing that from LDP and BOJ officials about foreign asset purchases as a policy option and gains in U.S. equities set the tone this week – weakness in the yen/strength in the dollar.

- Contacts report that real money accounts have been largely absent from the market with speculative and model accounts driving price action.
- While still at low levels on Friday implied volatility on one-month dollar/yen options ticked up to a 2-month high, suggesting participants look for further yen weakness ahead given growing signals out of Japan that some official action to stem deflationary pressure may be in store. Some contacts report an LDP working group has been established to examine purchases by the BOJ of foreign bonds, suggesting Japan is seriously considering this option.

The economic calendar in Europe is light next week but eventful with Germany's ZEW survey watched as a leading indicator on Germany's IFO business sentiment survey. October German retail sales will also be closely watched for insight into prospects for Q4 German GDP growth.

No change in monetary policy from ECB or BOE this week as the market expected. However, Euro-area sovereign
debt did weaken post-ECB announcement – suggesting some disappointment in the bond market with the ECB's
decision.

Friday's much-anticipated November employment report came in worse-than-expected. However, non-employment related data – including non-manufacturing NAPM and Michigan consumer confidence – were better-than-expected. Next week's retail sales data and the FOMC statement could help clarify recovery prospects.

- Despite the mixed data, Treasury market participants remain skeptical the U.S. economy is recovering and attribute the
 ongoing sell-off in Treasuries to high volatility in the market and poor liquidity conditions. Some contacts note that the
 over-capacity that incited the corporate profit recession and subsequently economic recession has yet to be worked off.
 However, participants in other asset markets seemed more optimistic this week about prospects for a U.S. recovery.
- Equity markets continue to price in a recovery with the DJIA and NASDAQ both breaking back above the
 psychological 10,000 and 2,000 levels, respectively, this week. However, after breaking these levels on Wednesday
 both indices have traded sideways thus, technical analysts will continue to monitor closely the major indices.

Volatility in Treasury and Eurodollar interest rate futures markets remains high. Treasury yields rose 33 to 40 bps on the week, but the 2 to 10-year Treasury curve steepened by 6 bps on expectations for further Fed easing. In fact, contacts noted if the market believed the economy was recovering the curve should flatten, not steepen.

- Dealers note poor liquidity conditions in the run-up to year-end exaccerbating price movements. Dealers who account
 for 70% of volume among Treasury dealers remain risk-adverse in the run-up to their book closing on December 31st.
- Furthermore, sizable activity from holders of mortgage backed securities -- selling Treasuries as prices fall and buying.
 Treasuries as prices rise to adjust their hedges in the absence of activity from other accounts in the run-up to year- end
 -- has been cited as a factor increasing Treasury market volatility.
- Dealers unanimously look for a 25 bps cut to 1.75% at next Tuesday's FOMC meeting. What is more, 16 of 24 primary dealers reportedly expect another 25 bp cut at the FOMC's end-January meeting. However, interest rate futures extended their pricing in of Fed tightening in 02' with the spread between the Jan 02' and Dec 02' Eurodollar interest rate futures contract widened by 40 bps on the week to 217 bps.

On the week U.S. equities railied, credit spreads have tightened and consumer credit rose. However, other channels of monetary policy transmission became more restrictive as bank lending standards to corporates continue to tighten, Treasury yields once again rose dramatically and the trade-weighted dollar firmed 0.8%.

 Some contacts suggest tighter monetary conditions could retard an economic recovery or require even more Fed easing given the continued absence of inflationary pressures.

Argentina's troubles remain contained. However, the GOA's "temporary" measures -- capital controls and effective confiscation of private pension, corporate and bank deposits and bank assets both on- and off-shore -- remain negative for the real economy, consumer confidence and social stability as well as difficult to unwind.

The results of Economy Minister Cavallo's last ditch plea to the IMF today remain unclear. However, if Fund
management holds the line of no Q4 disbursement due to missed program targets it appears unlikely that the
government will be able to continue to service its foreign currency debt and prevent further capital flight. Speculation
about Cavallo's resignation, a devaluation followed by dollarization and then default continues to circulate as do
rumors of the failure of Banco de Galacia and a bank holiday on Monday.

Jill Cetina December 7, 2001

Work of Dissouber 3-7, 2001

Global Market Developments

From: Cetina, Jill

Sent: Monday, December 03, 2001 12:48 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Noon Report.

-- Euron-related risk aversion still a factor. Israell military action also noted. Oil prices up.

- Argie troubles fester but woes remain contained.

U.S. Markets

U.S. Fixed Income: Treasury prices are little changed. While this morning's data releases suggested the economy might be a bit stronger than expected and briefly pressured Treasury prices lower, weakness in the employment component of NAPM and expectations of a weak employment report on Friday are keeping expectations of further Fed easing intact. Mid-morning the curve had steepened in reaction to concerns about further credit implications of Enron's bankruptcy and events in Argentina. Dealers also noted Israel's bombardment today of the Palestine Authorities' headquarters and a police station as a background factor stimulating buying interest in the 2-year note. Flows are reportedly light. (JCetina 2-2017)

While a 25 bps cut at the Dec 11th meeting is fully priced in, the yield on Feb Fed Fund futures fell 3 bps to 1.70%, beginning to price in a further 25 bp cut post Dec11th. Spreads on high grade industrial bonds are 2 to 5 bps wider. Spreads auto-related bonds are about 10 bps on concern about a possible downgrade in earnigns outlook by Fond. Spreads on Dynergy bonds are about 40 to 50 bps wider on news of Enron's \$10 billion lawsuit against its prior suitor. (JCetina 2-2017)

U.S. equities moved lower in active trading, pressured by the implications of the Enron Corp. bankruptcy, such as exposure of J.P. Morgan and Citigroup. Dynergy Inc fell 6.4% to \$28.41 on news of Enron's lawsuit. Financial stocks were also pressured by concerns over Argentina's new limits on currency transfers. In addition, Ford Motor was reported to be ready to warm of a larger-than-expected earnings decline. The worst stock performers were electrical equipment, financial, software, bank and insurance issues. (JSharer 2-2042)

Giobal Markets

FX: After an initial positive reaction to the NAPM data, the USD while settling into a narrow, albeit higher, trading range against major currencies. Fx markets remain abuze over Enron. Finally, a few participants thought Greenspan's fx comments on Friday were significant, expressing shock markets hadn't taken note. (LQuinn 2-9122)

Europe: U.K. gilt yields were down 1 to 6 bps following news U.K. manufacturing declined for the ninth straight month and that confidence among U.K. service-industry firms fell to a three-year low in Nov. The BOE MPC is scheduled to meet later this week but is expected to keep rates steady. German bund yields were down 1 to 5 bps, supported by declines in equity markets. Enron Corp.'s bankruptey spurred some safe-haven interest in bonds. The ECB board is scheduled to meet on Thursday but no change is anticipated. European bourses were weaker, with the FTSE underperforming. (JSharer 2-2042)

LatAm: Partial dollarization in Argentina has furthered speculation about the future of the currency board and the mechanism of price adjustment — dollarization followed by deflation versus devaluation. Some contacts note that the central bank may not have sufficient reserves to dollarize given its lending activities to Banco Nacion (however, deposit withdrawal restrictions might allow convertibility ratios to be stretched) while others noted that dollarization would require congressional approval. A local contact reported substantial buying of non-perishables by locals on fears of a peso devaluation. Most contacts agreed that the measures just buy the banking sector some time and are negative for consumer sentiment and employment in the informal sector. Argie bond prices have retraced and are now higher, which dealers attribute to short covering. The Brazillian real is firmer — helped by dollar debt issuance by local corporates, the proceeds of which are to be repatriated. Also, contacts note Argie dollarization would be real supportive. (JCetina 2-2017)

Today's Events:	Actual	Previous Period	Expectation	
U.S. personal income, Oct.	056	0%6	0.1%	
U.S. personal spending, Oct.	2.9%	-1.7% revised	2.3%	
U.S. NAPM, Nov.	44.5	39.8	42.0	
Argentine tax receipts, Nov.	Govt sources reportedly saying d	lown 12 to 13% v/v (better	-than-initial some	earlier estimates) h

contacts question the breakdown of tax receipts -- eash, GOA bonds, Lecops and Patacones. Official release due out tonight.

From: Cetina, Jill

Sent: Monday, December 03, 2001 7:49 AM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Morning Report, Dec 3rd

-- Equities lower; Treasuries and Euro-area debt prices up; and USD lower.

- Contagion from Argentine capital flight limited; but Spain's IBEX underperforms.

- U.S. personal income and outlays; NAPM later this a.m.

Global Markets Fx: The USD is modestly firmer against most major currencies, with dealers reporting flows as light. Some European contacts noted Chairman Greenspan's Friday afternoon comments about fx. Greenspan said he expects to see persistent USD strength despite the U.S. current account deficit and noted that the euro is unlikely to eclipse the USD anytime soon given higher U.S. productivity and labor market rigidity in Europe.

Japan: The Nikkei declined 3%, weighed on by S&P's downgrade of NTT and NTT DoCoMo as well as declines in shares of money management firms negatively impacted by Enron's bankruptey. Banking shares declined 2.9% today, falling to their lowest level on the TOPIX since Jan 1984 and underperforming the broader TOPIX. The BOJ began to drain some of the liquidity it injected into the banking system on Friday in response to the fall-out from Enron's woes. Excess reserves declined by Y1 trillion to Y13 trillion. Partiteipants noted comments from Governor Hayami in today's FT. Hayami stated he was increduous the U.S. would suggest the BOJ buy foreign bonds. He added more liquidity or a weak yen would not lead to a recovery in Japan absent corporate and banking reforms. Hayami also highlighted problems with a rapid fall in the yen. However, the yen was little changed in response. Overnight the MOF's Kuroda reiterated the euro is undervalued.

Emerging Asia: Taiwan shares outperformed following this weekend's parliamentary election which resulted in the ruling party gaining control. However, other regional bourses were lower. Philippine CB Gov Buenaventura said he would cut reserve requirements by as much as 2 percentage points. HK forwards moved very slightly in response to developments in Argentina.

Latin America: After \$700 million in deposits withdrawals on Friday, over the weekend EconMin Cavallo announced capital, currency and interest rate controls and partially dollarized the economy to stop a bank run and slow capital flight. Individuals can only withdraw \$1,000/month, and international payments require central bank approval. FX flows will be limited to trade and scheduled payments. Cavallo blamed the crisis on "speculators at home and abroad." Prices on Argentine bonds are down about 3 points. A few contacts this morning note given the GOA's weekend announcement they find it difficult to believe that the IMF could disburse further funds.

U.S. Markets Equity index futures are lower and suggest a lower open to the NASDAQ. Declines in equity futures is providing modest support to Treasury prices in early trading. Enron declared bankruptcy — drawing continued market speculation about what positions Enron might need to liquidate. Participants are focusing on the release of U.S. data later morning. The CFTC's commitment of traders report shows a further paring back in long positions in 5-, 10- and 30-year Treasury futures while long Eurodollar futures positions remain near historic high levels. This suggests the market continues to look for Fed easing but is puring back on duration.

Today's Events:	Acts	rail	Previous Period	Consensus Expectation
Japan, vehicle sales Nov	-9.3% y/y	-7% y/y	m/a	
Germany PMI	43.9	42	43.6	
U.S. personal income, Oct.	8:30 a.m.	(19%	0.1%	
U.S. personal spending, Oct	8:30 a.m.	-1.8%	2.3%	
U.S. NAPM, Nov.	10:00 a.m.	39.8	42.0	
Argentine tax receipts, Nov.	Tonight after n	narket closes ru	more are for a 11.5% to	s L3% w/y decline

From:

Byrne, Kathleen

Sent:

Friday, November 30, 2001 5:48 PM

To:

DL. Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager, Philippa Malmgren; T.J. Shevlin

Subject:

Global Market Developments, Week of Nov. 26-30, 2001

This week, market participants moderated their expectations for near-term U.S. economic recovery as well as their risk appetites, factors that weighed on the dollar and selected equity markets and tended to support bonds. Alongside these factors, a plethora of dovish comments by Federal Reserve officials also increased expectations for further monetary easing by the FOMC in December. In terms of specific events, the week was perhaps most noteworthy for the downgrade of Enron Corporation and the long-awaited downgrade of Japan's sovereign debt rating.

Next week is an important one for U.S. data, including Friday's release of the Employment Report for November, which comes just ahead of the December 11 FOMC meeting the following week. In addition, the Bank of England and ECB will hold policy meetings.





Nov30.pd

11.30.01charts.pdf

Noon Global Financial Markets

-Claims data mixed; equities mark-time; yen weakens; Treasury prices lower.

12/6/01 12:39 PM

Treatury Market Anches Unit 622/26

U.S. Economy: While initial claims surprised on the high side, there was much discussion about the decline in continuing claims which fell 349,000 in the last week of Nov to 3.6 million. Despite today's sharp drop, continuing claims data remain at levels consistent with recession, and unemployment is still expected to rise. Signs of greater stability in labor markets and manufacturing may be emerging, but a 25 bps cut at next week's Dec 11 FOMC meeting remains priced in to Dec Fed Fund futures. (KByrne, 2-2054)

U.S. equities were narrowly mixed in moderate trading ahead of tomorrow's release of November employment data. Enron Corp. fell 24% to \$0.77, while Dynergy Inc. fell 0.8% to \$28.76. The best stock performers were software, electrical equipment, communication equipment, bank and financial issues. The worst stock performers were oil, semiconductor, retail store, beverage and entertainment issues. (JSharer 2-2042)

Treasuries weakened further in reaction to the continuing claims data which some dealers saw as suggesting tomorrow's employment report might be better than previously expected. Mild-morning comments from NY Fed President McDonough that he did not know if the economy has reached a turning point provided fleeting support to Treasury prices. Dealers note liquidity the market remains extremely poor. However, as lunchtime approached real money accounts, some central banks and some hedge funds buying 2- year notes even as swap desks sold 2- and 5-year notes. Prices, however, remain to 1/8 to 1 1/8 points lower. (Cetina 2-2017)

Global Markets FX: Negative sentiment towards Japan sparked off by the overnight announcement of the bankruptey of Aoki (a Japanese construction company) has driven the yen sharply lower, particularly against the ouro. Traders report that Japanese investors consider the euro/yen play as the least risky given the positive earry. The yen has weakened to 4- and 2-month lows against the USD and ouro, respectively, ahead of the release of Q3 GDP data overnight with expectations ranging from -0.5% to -1.1%. The euro pared its losses against the dollar as short term players were said to be lightening their short euro positions ahead of tomorrow's US employment report. (LQuinn 2-9122)

Europe: German bund yields rose 2 to 9 bps, pressured by firm equity markets and expectations for economic recovery. The ECB met today and kept rates unchanged as anticipated. ECB President Duisenberg indicated conditions were in place for a rebound in 2002 and that current levels of interest rates are appropriate. U.K. gilt yields were unchanged to up 12 bps as a rise in Nov house prices weighed on the market. European bourses were modestly higher, with the FTSE outperforming. (JSharer 2-2042)

Commodities: Front-month Brent and Nymex futures prices are lower for the 3rd straight session. Our contacts question private Russian oil companies' intentions vis-a-vis their government's official offer to cut 150,000 bpd. They also cite Norway's postponement of a final decision on its own output until later this mouth, rising U.S. stocks and persistently mild weather as factors weighing on prices. (KByme, 2-2054)

Latam: Contacts note a Monday decree requires private pension funds to invest 90% of their monthly inflows in Letes which is expected to provide about \$1.5 billion in new financing to the GOA. The money could help the GOA squeek through Dec without defaulting in spite of the IMF's refusal to disburse the Q4 tranche in light of missed targets. Some contacts noted talk from Medley GA the GOA will devalue to 1.5 and then dollarize and this change would precipitate EconMin Cavallo's resignation. There are rumors President de La Rua is holding an emergency cabinet meeting and talk that Cavallo will resign today. Activity in the NDF market remains limited as debates about the appropriate \$/ARS fixing level continue. (JCetina 2-2017)

Equities	12:39 PM	Change
DJIA	10,146	0.32%
Needeq	2,057	0.50%
5AP 500	1,271	0.02%
Wilshins To: Miss	10,848	0.13%
DUA Val.	129,806,100	
Canadian TSE	7,643	0.30%
Mexican Belsa	6,166	1.10%
Brazilias Bovespa	13,524	1.06%
German Dan	5,290	0.32%
French CAC-40	4,679	0.04%
U.K. PTSE	5,370	0.68%
Niktoi -225	10.857	1.34%

U.S. Treasuries	12:39 PM	Change has
1-month bill	1.72%	-2
3-march bill	1.72%	-2
6-march bill	1.07%	- 3
2-year	3.12%	6
5-year	4.34%	10
10-year	4.97%	7
10-year	5.44%	8

12:39 PM	Change has
1.8854	we change d
1.78%	wechanged
	1.88%

USD performance	7.5	12:39 PM	Charge
Juganesa yen		124.9	0.58%
Buro	8	0.8921	-0.43%
Sterling	5	1.4276	-0.81%
Swiss frasc		1.6525	-0.34%
Canadian dollar		1.5755	-0.0134
Махіная резо		9.23	0.33%
Brazilian real		2.418	4866

Other cross rates	12:39 PM	Change
Euro/yon	111.38	0.98%
Euro/starling	0.6248	-0.33%

Commodities	12:39 PM	Change
Geld	\$273.80	-59.00
Oil (Brew)	\$18.57	-50.69
Near-dated NYMEX futures contract	\$19.17	-50.32

Today's Events: U.S. Initial jobless claims, week Dec 1 U.S. Q3 non-farm productivity U.S. Q3 unit labor costs U.S. factory orders, Oct.	Δευα]	Provious Period	Commun Sapostation
	475,000	revised to 493K from 488K	456K
	1,5%	2.7%	2.1%
	2,3%	1.8%	2.3%
	7,1%	revised to 46.5% from -5.8%	7%

For Internal Use Only

12/8/01 12:39 PM

	6-Dec	5-Dec	5-Dec	Friday's close	This week	<u>This year</u>
PERFORMANCE	The State of the S	Control of the Contro	BURNES BOYES	SHOP BHO CASES	Sept. Sept. 1	Posterior L.
Yen	124.88	124.16	0.58%	123.48	1.14%	-8.16%
Euro	0.8919	0.8888	-0.35%	0.8966	0.53%	-5.18%
Sterling	1.4254	1.4163	-0.64%	1.4253	-0.01%	-4.53%
Swins	1.6542	1.4590	-0.29%	1.6415	0.77%	-2.68%
Canadian 5	1,5765	1.5758	0.94%	1.5728	0.24%	-5.16%
Australian S	0.5184	9.5177	-0.14%	0.5219	0.68%	-7.23/4
Korsan won	1269.4	1265.9	0.28%	1268.0	0.31%	-0.35%
Indonesion rupiah	16468	18479	-0.67%	10465	-0.62%	-7.49%
Philippine peso	\$2.00	52.60	0.00%	51.95	0.1014	-4.6074
Thal baht	43.88	43.97	-0.19%	43.94	-0.13%	-4.11%
Taiwan S	34.41	34.41	0.00%	34.42	-0.03%	-3.89%
Polish atony	4.060	4.070	-0.26%	4.063	-0.09%	1.77%
Russian rubte	29.96	29.95	0.05%	29.94	0.07%	-4.91%
South African rand	10.915	11.211	-2.64%	10.260	6.38%	-43.81%
Mexican peso	9.242	9.214	0.31%	9,225	0.1874	4.14%
Brazilias cell	2.426	2.435	-0.39%	2.495	-2.79%	-24,38%
COMMODITIES	the American	1237 2123 2 4				
Gold	5274.35	5274.35	0.00%	5274.40	-0.62%	0.72%
European Brent	\$18.77	\$19.27	-1.59%	518.92	-0.75%	-16.87%
icar Nymen futures	\$19.28	\$19.55	-1.38%	\$19.44	-0.82%	-28.66%
CRB ledex	\$190.17	\$189.86	0.16%	5192.66	-1.29%	-16.53%
- Aur seute	20.000	***************************************				
NOTIFIES TO STATE OF THE PARTY	1000年日本の日本の	CAROLINA SERVICE	907 F42 100	GARLING THE	93.70	20,000
Daw Jones	10,134	10,114	0.19%	9,852	2.87%	-6.05%
Nasdaq	2,052	2,647	0.25%	1,931	6.29%	-16.94%
S&P 500	1,169	1,170	-0.11%	1,139	2,60%	-11.45%
Nikket 225	10,857	10,714	1,34%	10,697	1,49%	-21,24%
Japan Topis	1,058	1,047	1.02%	1,050	0.74%	-17.58%
German DAX	5,275	5,263	0.23%	4,990	5.71%	-18/01%
French CAC-40	4,679	4,678	0.04%	4,476	4.54%	-21.04%
U.K. FTSE-100	5,370	5,334	0.68%	5,284	3.19%	-13.70%
H.K. Hang Seng	11,746	11,678	0.58%	11,279	4.14%	-22.19%
Korean Kospi	687	685	-0.25%	644	6,63%	36.86%
Taiwan Weighted	5,219	4,925	5.77%	4,441	17,29%	9.90%
Polish Wig	14,348	14,318	0.21%	14,036	2.22%	-19.61%
South African 15E	16,993	9,530	1.75%	9,441	5,95%	20.13%

2 2 15 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	STATE STATE OF	10070	TO THE	Cinci	SELECTED SE	SHEET	- Mary	REDUCE	anna a	Deline	SHOW THE REAL PROPERTY.	Christian	CHETCH	STATE OF
Overnight race	1.90	-2	0.05	0	3,26		4.63	-2	3.26	9	3.26	0	2.16	-3
3-m outh bill	1.75	-2	0.03	0	3.36	2	3.89		3.20	-2	3.36	2	2.07	-1
2-year bond	3.11	33	0.12	0	3.68	9	4.56	13	3.75		3.76	13	3,44	2
5-year bend	4.32	8	0.53	1	4.27	,	4.50	9	4.29	10	4.36	8	4.71	1
10-year bend	4.96	6	1.40	1	4.75	+	4.86	9	4.87	4	5.07	4	5.40	1
36-year bend	5.42	7	1.55	3	5.20	-3	4.52	-2	5.26	-2	5.49	-3	5.66	3

ES FIXED INCOME	2-year Famile	H-year Family	16-year swep suread	2-10 year UST spread	2-30 year UST operad
Current	0.00	5.60	68	186	292
Bps change	unchanged	10	-8	-17	-26

EMERGING FIXED INCOME	Keren '08	Tholland '11	Indonesia '06	Russia MinFin '97	Polsad PD1	
Current Bps change	5.71 9 <u>Arpentina Par</u>	4.98 unchanged Brazil C	11.08 unchanged <u>Mexico Par</u>	12.65 unchanged <u>Venezuela DCB</u>	7.02	
Current	71.80	13.49	8.58	14.81		
Bps change	473	4	*	13		

					Currenci	es			
	Unit Charge (In			- Perce	ent Change	(In Dollars	per Unit Te	vues) –	
	6-Dec	5-Dec	6-Dec	5-Dec	Dis week	This month	This year	In '09	In '99
Japan	124.88	124.16	40.6%	0.0%	-1.1%	-1.1%	9.2%	-11.9%	11.3%
Euro	0.8919	0.8888	0.4%	-0.2%	-0.5%	-0.5%	-5,4%	-6.3%	-14.3%
EuroYen	111.28	110.33	0.9%	-0.1%	0.6%	0.6%	3,3%	4,4%	-22,3%
UK	1.4254	1.4163	0.6%	-0.5%	0.0%	0.0%	-4.5%	-7.7%	-2.5%
Germany	2.1928	2.2007	0.4%	-0.2%	-0.5%	-0.5%	-5.7%	-6.8%	-13.8%
Australia	0.5184	0.5177	0.1%	-0.9%	-0.7%	-0.7%	-7.2%	-14.9%	-0.5%
Caroda	1,5765	1.5758	0.0%	0.0%	-0.2%	-0.2%	-5.2%	-3.7%	-1.0%
Gold	274.35	274.35	0.0%	0.3%	0.0%	0.0%	0.7%	-5.5%	-0.4%
Thailand	43.88	43.965	0.2%	0.2%	0.1%	0.1%	-1.1%	-15,7%	-2.3%
Indonesia	10,400	10470	0.7%	0.0%	0.6%	0.6%	-7.5%	-38.5%	14.5%
Malaysia.	3.80	3.20	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	52.00	52.00	0.0%	-0.1%	-0.1%	-9.1%	-4.0%	-24.1%	-4.2%
South Korea	1,269	1266	-0.3%	0.3%	-0.1%	-0.1%	-0.3%	-11.4%	6.0%
Taiwan.	34.41	34.41	0.0%	0.0%	0.059	9,0%	-3.9%	-5.5%	2.7%
Singapore	1.8289	1.8350	0.3%	0.0%	0.159	0.156	-5.5%	-4.156	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.056	0.0%	0.0%	0.0%
Brazil	2,4255	2.4350	0.4%	0.1%	2,8%	2,8%	-24.4%	-8.0%	-33.1%
Mexico	9.2420	9.2135	-0.3%	0.2%	-0.2%	-6.2%	4.1%	-1.4%	4.1%
Chile	674.65	671.35	-0.5%	-0.3%	1,7%	1,7%	-17.6%	-8.3%	-10,7%
Colombia	2,313.25	2314.00	0.0%	0.1%	-0.6%	-0.6%	-3.5%	-19.3%	-17.3%
Venezuela	748.51	749.51	0.1%	-0.2%	-0.2%	-0.2%	-7.0%	-7.8%	-13.0%
Poland.	4.0595	4.0700	0.3%	-0.9%	0.1%	0.1%	1.8%	0.1%	-15.1%
Hungary	279.38	280.28	0.3%	-0.1%	0.4%	0.4%	0.5%	-11.0%	-14.5%
Czech.	36.984	37.118	0,4%	-0.3%	-0.1%	-0.1%	1.7%	-5.1%	-15,7%
Russia	29.960	29.945	40.1%	9.0%	-0.1%	-0.1%	-5.0%	-3.6%	-25,2%
South Africa	10.9150	11,2105	2.6%	0.4%	-6.4%	-6.4%	-43.8%	-23.5%	4.5%
Turkey	1,452,000	1,457,000	0.3%	1.6%	1.956	1.9%	-116.6%	-23.6%	-41.9%
Greece	382.63	383.41	0.4%	-0.2%	-0.5%	-0.5%	-5.7%	-10.2%	-13.9%

			E	quities (In)		
	Unit Change Percent Change								
	6-Dec	5-Dec	6-Dec	5-Dec	This tek	This me	This ye	In '09	In '99
Dow	10134	10114	0.2%	2,2%	2.9%	2.9%	-6.1%	-6.1%	25.2%
Naulag	2052	2047	0.3%	4.3%	6.3%	6.3%	-16,9%	-39.3%	85.6%
Nikkei	10857	10714	1,3%	2.5%	1.5%	1.5%	-21.2%	-27.2%	36.8%
FT-SE 100	5370	5334	0.7%	2.3%	3.2%	3.2%	-13,7%	-10.2%	17.8%
DAX	5275	5263	0.2%	5.0%	5.7%	5.7%	-18.0%	-7.5%	39.1%
CAC-40	4679	4678	0.0%	3.3%	4.5%	4.5%	-21.0%	-0.5%	51.1%
Theiland	305	304	0.5%	0.0%	0.9%	0.9%	13,4%	-44.1%	35.4%
Indonesia	379	378	0,4%	0.1%	-0.3%	-0.3%	-8.9%	-38.5%	70.1%
Malaysia	656	653	0.5%	0.8%	2.9%	2.9%	-3,4%	-16.3%	38.6%
Philippines	1133	1122	1.0%	2.3%	0.4%	0.4%	-24,2%	-30.3%	8.8%
Hong Kong	11746	11678	0.6%	2.2%	4.1%	4.1%	-22.2%	-11.0%	68.8%
South Korea	687	688	-0.2%	5.9%	6.6%	6.6%	36,1%	-50.9%	82.8%
Taiwan	5209	4925	5.8%	3.3%	17.3%	17.3%	9,8%	-43.9%	31.6%
Singapore	1618	1593	1.6%	3.6%	9.4%	9.4%	-16.0%	-22.3%	28.6%
China	169	166.87	1.3%	-1.6%	2.2%	2.2%	88.8%	136.2%	32.0%
Brazil*	13524	13382	1.1%	1.8%	4.6%	4.6%	-11,4%	-10.7%	151.9%
Acgentina*	246	229	7.5%	8.0%	21.7%	21.7%	-40.9%	-24.3%	28.0%
Mexico*	6139	6099	0.7%	2.8%	5.3%	5.3%	8,6%	-20.7%	80.1%
Chile	110	110	-0.1%	1.0%	0.3%	0.3%	14.5%	-32.6%	41.8%
Colombia	930	930	0.0%	0.5%	0.0%	0.0%	30.4%	-28.6%	-9.3%
Venezuela.	6217	6211	0.1%	1.2%	-2.5%	-2.5%	-8.9%	26.6%	14.8%
Poland	14348	14318	0.2%	0.3%	2.2%	2.2%	-19.6%	-1.3%	41.3%
Hungary	7212	7251	-0.5%	1.9%	1.2%	1.2%	-8.1%	-11.0%	39.8%
Czech	401	401	-0.1%	-0.2%	2.2%	2.2%	-16.2%	-2.3%	24.2%
Russia	241	234	2.9%	-0.2%	6.5%	6.5%	68.4%	-18.2%	197.4%
South Africa	10003	9830	1.8%	1.9%	5.9%	5.9%	20.1%	-2.5%	57,3%
Turkey	12687	11931	6.3%	5.5%	9.1%	9.1%	34,4%	-37.9%	485.4%
Greece	2728	2703	0.9%	0.8%	1.3%	1.3%	-19.5%	-38.8%	102.2%

Equities begin tracing in Brazil, Argentina, and Mexico at 8:00 a.m., 9:00 a.m., and 9:30 a.m. Eastern time respectively.

From:

Cetina, JIII

Sent:

Thursday, November 29, 2001 5:24 PM

To:

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Closing Report; Nov 29th

-- Latin assets under pressure; Treasuries rally; stocks higher.

 Tomorrow an event packed day with Q3 GDP expected to be revised down; Morgan Stanley Capital Index reweighting impacting equities and fx; end of Argie local swap and financial year-end for some firms on Wall St.

U.S. Markets Dollar little changed in the NY afternoon headed into tomorrow's MSCI reweighing.

Treasury yields fell 11 to 19 bps across the coupon curve, steepening the curve. Liquidity remained poor and speculation continued about the impact of Enron's woes on credit markets. Fed Fund and Eurodollar futures railied. The Dec Fed Fund future fell 3 bps, almost fully pricing in a 25 bps cut at the Dec 11th FOMC meeting to a 1.75% Funds rate. The spread between the Jan and Dec 2002 Eurodollar futures contracts narrowed 14 bps to 184 bps, suggesting some pricing out of a U.S. economic recovery.

Global Markets Latam: Argentine assets closed near the duy lows — the Argie EMBH at 3,242 bps; the implied yield on the 1-month NDF at 175%; and the overnight rate closed at 200%. After the market closed. Argentine authorities stated the IMF will not delay the Dec disbursement and that it would seek alternative financing if IMF aid was delayed. The Brazilian real depreciated 2.7% with some contacts attributing the move to stepped-up corporate hedging on concerns about Argie. However, others noted that the Nov. dollar/real futures expiration tomorrow triggering some dollar buying today, which they expect to be reversed. One large U.S. bank is forecasting real appreciation to 2.30 by Feb. Local Brazilian interest rates also suggest a lack of concern about some imminent change in Argentina's fx regime as short-dated rates were little changed (many contacts expect the COPOM would have to raise rates substantially in the event of an Argie deval). However, the Brazil C bond did close 1 2/3 points weaker on profit taking and nervousness over Argentina.

The Russian EMBI+ sub-component outperformed today, narrowing 8 bps to 766 bps following Moody's upgrade of Russia's I-term rating today to Bu3 from B2. Moody's also upgraded South Africa's I-term rating today, a bit earlier than the market expected, to Baa2 from Baa3. The South African rand, however, depreciated by 4.3%, after SARB Governor Mboweni said the central bank had no target for the rand. With today's move the rand now usurps the title of second worst performing currency year-to-date from the Brazilian real. Some contacts are now looking for the rand to depreciate further to 18 rand to the USD over the next 3- to 6-months.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
Japan unemployment rate, Oct.		5.4%	5.3%
Tokyo consumer prices, Nov, sa		-0.1%	-0.4%
French unemployment. Oct.		9.0%	9.1%
U.S. Q3 GDP 1st revision	8:30 a.m.	-1.0%	-0.4%
Canadian Q3 GDP 1st revision	8:30 a.m.	-0.6%	-0.4%
Chicago PMI, Nov	10:00 a.m.	45.5	46.2

Closing Global Financial Markets

November 29, 2005

Treasury M.

A

-- Latin assets under pressure; Treasuries rally; stocks higher.

Tomorrow an event packed day with Q3 GDP expected to be revised down; Morgan Stanley Capital Index reweighting impacting equities and fx; end of Argie local swap and financial year-end for some firms on Wall St.

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Equities	5:19 PM	Change
DITA	9,829	1.21%
Nasdaq	1,933	2.40%
S&P 500	1,140	1.03%
Wilshine Tet Mkr.	10,545	1.1354
DIIA Vol.	212,458,100	
Canadian TSE	7,400	0.5756
Mexican Bolsa	5,841	-0.12%
Brazilian Bovesps	12,736	-2.17%
German Dax	4,936	0.41%
French CAC-40	4,446	0.01%
U.K. FTSE	5,209	0.06%
Nikkei-225	10,656	0.00%

U.S. Treasuries	5:19 PM	Change bps
I-month bill	1.90%	-3
3-month billi	1.80%	-7
6-month bill	1.80%	-12
2-year	2.88%	-18
5-year	4,10%	-19
10-year	4.76%	-17
10-year	5.24%	-11

Money Markets	5:19 PM	Change bus
Overnight rate	2.06%	206
January Fed Funds	1.78%	-5
contract imp yld		

USD versus		5:19 PM	Change
Japanese yen		123.87	0.65%
Euro	s	0.8872	0.00%
Sterling	S	1.4261	0.16%
Swiss frame		1.6551	4.55%
Canadian dollar		1.5795	-0.16%
Mexican peso		9.285	0.12%
Brazilian real		2.547	2.70%

Other cross rates	5:19 PM	Change
Euro'yen	110.05	0.60%
Euro/storling	0.6219	0.03%

Commodities	5:19 PM	Change
Gold	\$273.80	59.39
O(I (Brest)	\$18.54	-50.26
Near-dised NYMEX		
contract	518.57	-50.05

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Tomorrow's Events:	Time	Consensus Expectation	Previous Period	
Japan unemployment rate, Oct.		5.4%	5.3%	
Tokyo consumer prices, Nov., sa		-0.1%	-0.4%	- 1
French unemployment, Oct.		9.0%	9.1%	
U.S. Q3 GDP 1st revision	8:30 a.m.	-1.0%	-0.4%	
Canadian Q3 GDP 1st revision	8:30 a.m.	-0.6%	-0.4%	
Chicago PMI, Nov	10:00 a.m.	45.5	46.2	1

For Internal Use Only

Drafted by: Jill Cetina 11/29/01 5:19 PM

GLOBAL FINANCIAL MARKETS 11/29/01 4:15 PM

Euro 0.3876 0.8879 0.33% 0.8780 1.049% 1.049% 1.049% 1.1495 1.1595 1.0404 1.0595 1.0404 1.0595 1.0404 1.0595 1.0404 1.0595 1.0404 1.0595 1.0404 1.0595 1.0404 1.0595 1.0404 1.0405 1.04							
Ven		29-Nox	28-Nev	29-New	Friday's class	This work	This year
Euro 0.8876 0.8879 0.0374 0.8780 1.0454 Sterling 1.4265 1.4261 -0.0174 1.4695 -1.1876 Swits 1.6557 1.4666 0.8574 1.6664 -0.6675 Canadha 3 1.5810 1.5842 -0.2074 1.5994 -1.1576 Canadha 3 1.5810 1.5842 -0.2074 1.5994 -1.1576 Australian 5 0.5179 0.5215 0.7074 0.5173 -0.0174 Korran wan 1.70640 1.7070 -0.2475 1.2050 0.6075 Korran wan 1.70640 1.7070 -0.2475 1.2050 0.6075 Forman majah 18412 18440 0.1275 1.8065 0.7075 Philippine perso 3.1.755 5.1.55 0.0875 5.200 0.8075 Philippine perso 3.1.755 5.1.55 0.0875 5.200 0.8075 Thal bath 0.406 0.409 0.0275 0.4175 0.2775 Thirm 5 34.39 34.39 0.0875 0.4270 0.8975 Palish abory 0.4881 0.983 0.9275 0.4170 0.9475 Palish abory 0.4881 0.983 0.9275 0.4170 0.9475 Stetch Alfrican cand 19.1385 9.863 0.0975 29.40 0.0975 Stetch Alfrican cand 19.1385 9.863 0.1975 9.554 3.3375 Mesican perso 9.285 9.268 0.1975 9.557 1.4075 Brazillan call 2.546 2.481 2.5875 9.554 3.3375 COMMODITIES Gold 5273.55 5274.59 0.1575 519.40 0.4475 Near Nymex (atomes 518.45 519.31 1.888 1 -1.4475 519.40 -4.4375 Near Nymex (atomes 518.45 519.31 518.86 0.1875 519.12 0.4375 Down Jones 9.839 9.712 1.2175 9.960 1.2175 Narday 1.533 1.888 2.4076 1.503 1.5875 SAP 300 1.340 1.129 1.0475 1.150 0.40875 Japan Topis 1.409 1.109 1.0475 1.150 0.40875 Japan Topis 1.409 1.109 1.0475 1.150 0.40875 Japan Topis 1.409 1.109 1.0475 1.150 0.40875 Korran Nonp 6.39 6.30 6.305 0.4875 5.593 0.4874 L.K. Pitst-160 5.109 1.109 1.1096 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.45 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.45 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.45 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.45 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.45 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.45 0.2275 1.3175 Korran Nonp 6.39 6.39 6.32 0.5375 6.4575 6.4519 1.11815 Forbit Will 1.414 1.4214 0.4715 1.4218 0.4775 1.4318	ERFORMANCE	FORE TREETS 42 3250	マインを はちゃきゅうのは	A REPORT OF THE	Owner, in the boar	于10天10 ·	- Grand Street
Serring	Yes	123.84	123.07	0.63%	124.24	-0.32%	-8.25%
Swite			0.8879	0.03%	0.8783	-1,84%	-5.84%
Canacitian 5 1.5810 1.5842 -0.10% 1.5994 -1.1599 Asservation 5 0.5179 0.5215 0.70% 0.5118 -0.01% Korean was 1.16640 1.00% 0.0-2.45% 1.265.0 4.68% Indonestian rugish 18412 18410 0.12% 1.0495 -0.75% Philippire pers 51.55 51.35 0.00% 52.00 -0.10% That 44.08 0.40 -0.05% 44.15 0.05% Taiwan 5 34.19 34.29 0.00% 34.42 -0.05% Pullst abity 4.181 4.063 0.32% 44.120 -0.94% Russian rabite 2.944 2.944 0.00% 22.94 0.00% South Adrican rand 19.185 5.803 4.29% 9.554 3.33% Mexican pens 9.245 8.260 0.19% 9.157 1.40% Benditan rail 2.546 2.483 2.26% 2.545 1.72% COMMODITIES COMMODITIES COMMODITIES Down James 9.829 9.712 1.21% 9.960 4.33% Narion plant 518.54 519.32 -0.99% 5190.12 -0.49% Narion pens 9.829 9.712 1.21% 9.960 4.03% Narion pens 1.530 1.808 2.00% 519.30 1.28% Narion pens 1.530 1.808 2.00% 519.30 1.28% Narion pens 1.540 1.00% 5188.96 0.18% 519.012 -0.49% Narion pens 1.540 1.00% 5188.96 0.18% 519.012 -0.49% Narion pens 1.540 1.00% 5188.96 0.18% 519.012 -0.49% Narion pens 1.400 1.00% 5188.96 0.18% 519.012 -0.49% Narion pens 1.400 1.10	Sterling	1.4265	1.4263	-0.0116	1.4055	-1.19%	-8.4676
Australian S 0.5179 0.5215 0.70% 0.5178 -0.01% Korean was 1.164.0 1267.0 -0.24% 1265.0 -0.02% 1265.0 -0.02% 1265.0 -0.02% Philippire pess 51.55 51.55 0.60% 52.00 -0.25% Philippire pess 51.55 51.55 0.60% 52.00 -0.26% Philippire pess 51.55 51.55 0.60% 52.00 -0.25% Philippire pess 51.55 51.55 0.60% 52.00 -0.25% Philippire pess 51.55 51.55 0.60% 52.00 Philippire pess 51.55 51.55 0.60% 52.00 Philippire pess 52.55 52.60 0.02% 52.00 Philippire pess 52.55 52.60 0.02% 52.00 0.00% 52.00 Philippire pess 52.25 52.00 0.00% 52.00 0.00% 52.00 Philippire pess 52.25 52.00 0.00% 52.00 0.00% 52.00 Philippire pess 52.25 52.00 0.00% 52.00 0.00% 52.00 Philippire pess 52.00 52.00 0.00% 52.00% 52.00 0.00% 52.00 0.00% 52.00 0.00% 52.00 0.00% 52.00 0.00% 52.00% 52.00 0.00		1.6557	1.6466	0.55%	1.6464	-0.64%	-2.77%
Korran was		1.5810	1.5842	-0.20%	1.9994	-1.15%	-5.46%
Indicatestian ruginal	Australian S	0.5179	0.5215	0.70%	0.5178	-0.01%	-7.32%
Philippine pers		1264.0	1267.0	-0.24%	1265.0	4.08%	0.09%
Thai babt 44.08 64.09 -0.05% 44.15 -0.07% Taiwan 5 34.39 34.39 0.00% 20.00% 34.42 -0.05% Rousian rable 29.94 10.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.95% 0.0		16412	18480	0.12%	10495	-0.79%	-7.63%
Taiwan 5 34.39 34.39 0.00% 34.42 -0.00% Paish doty 4.001 4.001 4.001 0.32% 4.120 -0.00% Paish doty 4.001 4.001 0.32% 4.120 -0.00% Paish doty 29.54 29.64 0.00% 29.54 0.00% 29.54 0.00% 29.54 0.00% 29.54 0.00% 29.54 0.00% 29.55 0.00% 29.55 0.20% 0.19% 9.157 1.40% Braditian rull 1.546 1.481 2.50% 2.50% 2.503 1.72% Parallian rull 1.546 1.481 1.548 1.55% 1.55% 2.503 1.72% Parallian rull 1.55% 1.55% 1.481 1.55%		5L95	51.95	0.00%	52.00	-0.10%	-3,90%
Polish sloty 4.981 4.983 0.32% 4.120 -0.54% Standar radde 29.94 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.94 0.00% 29.95% 2.33% Mexican peace 9.235 8.266 0.19% 9.357 1.40% 8.24% 8.25% 2.583 1.72% 8.266 0.19% 2.58% 2.583 1.72% 8.266 0.19% 0.24% 8.266 0.24% 8.266 0.24% 8.266 0.24% 8.266 0.24% 8.266 0.24% 8.266 0.24% 8.266 0.28% 0.28% 0.2		7 600		-0.05%	44.15	-0.17%	-0.56%
Russian rubbs 29.94 29.94 0.00% 29.94 0.00% Seath African rund 19.385 9.865 4.28% 9.864 3.33% Mexican peac 9.285 9.268 0.19% 9.157 1.49% Bradillan ruli 2.546 2.481 2.58% 2.543 1.72% COMMODITIES			E 1801	0.00%	34.42	-0.09%	-3.83%
Seath African rand				0.32%	4.120	-0.94%	1.24%
Mexican peso 9.235 8.266 0.19% 9.357 1.40% Braditian real 2.546 2.482 2.58% 2.563 1.72% COMMODITIES					40.00	0.00%	-4.92%
COMMODITIES 1.7256 1.481 2.58% 2.583 1.7256				4,28%	9.954	3.33%	-35.51%
Gold 5273.55 5274.59 -0.35% 5372.98 0.14% European Breat 518.54 518.81 -1.44% 519.40 -4.43% Near Nymex fatures 518.45 319.32 -4.59% 518.96 -2.65% CRB Index 5189.30 5188.96 0.18% 5150.12 -0.43% Deer Jones 9.829 5.712 1.21% 9.860 -1.31% Near-BORTHES Dow Jones 9.829 5.712 1.21% 9.860 -1.31% Near-BORTHES 1.593 1.58% 2.40% 1.593 1.58% SAP 500 1.349 1.129 1.04% 1.150 -0.88% Near-BORTHES 1.04% 1.05% 1.04% 1.150 -0.88% Near-BORTHES 1.04% 1.04% 1.150 -0.88% Near-BORTHES 1.04% 1.04% 1.150 -0.88% Near-BORTHES 1.04% 1.053 -0.45% 1.065 0.25% 1.06% 1.				0.19%	9.157	1.40%	3,69%
Gold 5273.55 5274.58 -0.35% \$172.98 0.24% European Breat \$18.54 \$18.81 -1.44% \$19.40 -4.43% Near Nymex fatures \$18.45 \$19.32 -4.59% \$18.96 -2.45% CRB Index \$189.30 \$188.96 0.18% \$190.12 -0.43% Out of the control of t	Brazilian reál	2.546	2.482	2,58%	2,563	1.72%	-30.56%
European Breat S18.54 S18.81 -1.44% \$19.40 -4.43% Near Nymex fatures S18.45 \$19.32 -4.59% \$18.96 -2.85% CRB Index \$199.30 \$188.96 0.18% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$190.12 -4.43% \$1.50% \$	Gold	5271.55	\$274.50	-0.35%	\$177.94	0.74%	0.1745
Near Nymes \$18.45 \$19.32 45.9% \$18.96 -2.89% CRB Index \$189.30 \$188.96 0.18% \$190.12 -0.43% \$100.018 \$100.018 \$100.018 \$100.018 \$100.018 \$100.018 \$100.018 \$100.018 \$100.018 \$1.20 \$1.21% \$9.560 -1.31% \$1.29% \$3.67.90 \$1.349 \$1.29 \$1.04% \$1.50 -0.88% \$3.67.90 \$1.349 \$1.29 \$1.04% \$1.50 -0.88% \$1.048 \$1.049 \$1.053 -0.48% \$1.049 \$					\$272,98	0.24%	0.42%
CRB Index \$189.36 \$188.96 0.18% \$190.12 40.43% Dem Jones 9,829 9,712 1.21% 9,560 41.31% Narding 1,333 1,888 2.40% 1.503 1.58% \$6.7 500 1,349 1,129 1.04% 1,150 40.88% Nickai 225 10,656 10,625 0.25% 10,697 40.88% Japan Topis 1,049 1,053 40.45% 1,562 4.31% German DAX 4,735 4,916 0.41% 5,151 4-11% French CAC-40 4,446 4,446 0.81% 4,574 4.28% U.K. FTSE-100 5,309 5.205 0.66% 5,293 4.64% U.K. FTSE-100 5,109 11,090 11,096 0.27% 11,322 4.28% U.K. Hang Seng 11,090 11,096 0.27% 11,322 4.28% U.K. Hang Seng 11,090 11,096 0.27% 4,519 1.18% Talvan Waighted 4,866 4,448 0.41% 4,519 1.18% Polith Wig 14,114 14,214 4.71% 14,238 4.057%							-17,89%
Dow Jones 9,828 9,712 1,21% 9,960 -1,31% Nording 1,937 1,889 2,40% 1,903 1,58% S.6.P. 900 1,140 1,129 1,04% 1,150 -0,88% Nideal 225 10,966 10,625 0,22% 10,997 -0,38% Japan Topic 1,049 1,053 -0,45% 1,062 -1,31% German DAX 4,036 4,916 0,41% 5,151 -1,17% German DAX 4,036 4,916 0,41% 5,151 -4,17% 1,04% 1,				1122			-31.46%
Dow Junes 9,829 9,712 1,21% 9,960 -1,31% Nording 1,933 1,888 2,40% 1,993 1,58% SAP 500 1,349 1,129 1,04% 1,150 -0,88% Nickel 225 10,656 10,625 0,25% 10,697 -0,38% Japan Topis 1,049 1,053 -0,45% 1,962 -1,31% Japan Topis 1,049 1,053 -0,45% 1,962 -1,31% Japan Topis 1,049 1,053 -0,45% 1,962 -1,31% Japan Topis 1,049 1,053 -0,45% 1,951 -4,17% Japan Topis 1,049 4,916 0,41% 5,151 -4,17% Japan Topis 1,046 4,446 0,81% 4,574 -2,24% Japan Topis 1,056 5,205 0,66% 5,203 -1,66% Japan Topis 1,056 1,056 0,27% 1,322 -2,25% Japan Topis 1,056 1,056 1,057%	CMB Index	\$189.30	\$188.96	0.18%	\$190.12	-0.43%	-16,91%
Name 1,533 1,888 2,40% 1,503 1,58% S&P 500 1,549 1,129 1,04% 1,150 -0,88% Nickel 225 10,656 10,625 0,29% 10,497 -0,38% Japan Topis 1,049 1,083 -0,45% 1,952 -1,31% German DAX 4,036 4,916 0,41% 5,151 -4,17% French CAC-40 4,466 4,446 0,61% 4,574 -2,89% U.K. FISE-140 5,009 5,205 0,04% 5,203 0,64% H.K. Hang Seng 11,091 11,066 0,22% 11,322 -2,85% Korean Konpl 639 632 -0,59% 645 -2,53% Taloan Weighted 4,866 4,448 0,41% 4,519 1,18% Poinb Wig 14,114 14,214 -0,71% 6,438 -0,67%	FORTHS	A SECTION AND ADDRESS.	nalifologijski st	SIF Over models as to	Personal States	al-man'y-	1487-1467-15
Name 1,933 1,888 2,40% 1,503 1,58% S&P 500 1,349 1,129 1,04% 1,150 -0,88% Nickel 225 10,656 10,625 0,29% 10,697 -0,88% Japan Topis 1,049 1,083 -0,45% 1,862 -1,31% German DAX 4,036 4,916 0,41% 5,151 -4,17% French CAC-40 4,466 4,446 0,61% 4,574 -2,89% U.X. FISE-140 5,009 5,205 0,04% 5,203 0,64% H.K. Hang Seng 11,091 11,066 0,22% 11,322 -2,85% Korean Konpl 639 632 -0,59% 645 -2,53% Taloan Weighted 4,866 4,448 0,41% 4,519 1,18% Poinb Wig 14,114 14,214 -0,71% 6,438 -0,67%	Dow Jones	9,829	9,712	1.21%	9.960	-1.31%	-8.88%
S&P 500 1,540 1,120 1,04% 1,150 -0,88% Nb4,61225 19,666 19,625 0,29% 10,697 -0,38% Japan Topix 1,049 1,053 -0,45% 1,962 -1,31% German DAX 4,035 4,916 0,41% 5,151 -4,17% French CAC-40 4,466 4,416 0,81% 4,574 -2,89% U.K. FTSE-100 5,109 5,205 0,66% 5,293 -1,66% H.K. Hang Seng 11,091 11,664 0,22% 11,312 -2,65% Korean Koupi 639 632 -0,59% 645 -2,55% Talous Weighted 4,866 4,448 0,41% 4,519 -1,83% Point Wig 14,114 14,214 -0,71% 14,238 -0,87%	Nandag	1,533					-21,75%
Japan Topix 1,049 1,053 -0.45% 1,062 -1,31% German DAX 4,936 4,916 0.41% 5,151 -1,17% French CAC-40 4,466 4,446 0.81% 4,574 -2,284% U.K. FISE-100 5,009 52,05 0.66% 5,293 -0,64% H.K. Hong Seng 11,091 11,064 0,22% 11,322 -2,65% Korean Konpl 639 632 -0,59% 645 -2,53% Taloun Weighted 4,866 4,448 0.41% 4,519 -1,18% Point Wig 14,114 14,214 -0,71% 64,238 -0,67%	5-8 P 500	1,549	1,129				-13.64%
German DAX 4,736 4,916 0,41% 5,151 -4,17% French CAC-40 4,446 4,446 0,81% 4,574 -2,80% U.K. FTSE-100 5,109 5,208 0,06% 5,203 -1,64% H.K. Hong Seng 11,091 11,664 0,22% 11,322 -2,85% Korean Koupi 639 632 -0,59% 645 -2,55% Taleun Weighted 4,666 4,448 0,41% 4,519 -1,85% Polith Wig 14,114 14,214 -0,71% 14,238 -0,87%	Nilokul 225	10,656	10,625	0.29%	10,697	-0.38%	-22,70%
German DAX 4,036 4,916 0.41% 5,151 -4,17% French CAC-40 4,446 4,446 0.81% 4,574 -2,89% U.K. FTSE-100 5,109 5,205 0.86% 5,293 -1,64% H.K. Hong Seng 11,091 11,666 0,22% 11,322 -2,85% Korean Koupt 629 632 -0,59% 645 -2,53% Talwan Weighted 4,666 4,448 0,41% 4,519 -1,85% Polith Wig 14,114 14,214 -6,71% 14,238 -0,87%	Japan Topix	1,049	1,053	-0.45%	1,462	-1.31%	-18.32%
U.K. FTSE-100 5,009 5,205 0.66% 5,203 -1.66% B.K. Hong Seng 11,000 11,006 0.22% 11,322 -2.65% Korean Koupi 639 632 -0.53% 645 -2.53% Talvan Weighted 4,006 4,448 0.41% 4,519 1,18% -0.67% Point Wig 14,114 14,214 -0.71% 14,238 -0.67%		4,936	4,916	0.4154	5,151	-4.17%	-23.28%
H.K. Hang Seng 11,091 11,066 0,22% 11,322 -2,05% Korean Koupi 639 632 -0,58% 645 -2,53% Talwan Weighted 4,666 4,448 0,41% 4,519 -1,18% Polith Wig 14,114 14,214 -0,71% 14,238 -0,67%		4,446	4,446	0.00%	4,574	-2.88%	-24,98%
Korean Kospi 629 632 -0.58% 645 -2.53% Talwan Weighted 4,666 4,448 0.41% 4,519 -1,18% Polish Wig 14,114 14,214 -0,71% 14,238 -0,87%		5,209	5,205	0.06%	5,293	-1.61%	-16.30%
Talous Weighted 4,666 4,448 0.41% 4,519 -1,68% Polish Wig 14,114 14,214 -6,71% 14,238 -0,87%			11,866	0.22%	11,322	-2.65%	-26.53%
Polish Wig 14,114 14,214 -0,71% 14,238 -0,87%				-0.58%	645	-2.53%	24,62%
					4,519	-1.18%	-5.88%
South African 25E 9.234 9.258 -0.26% 9.290 -0.49%				-0.71%	14,238	-0.87%	-20.92%
7007			9,258		9,280	-0.49%	10.91%
Mexican Bobs 5,548 5,548 -0.12% 5,735 1,86%	Mexican Bobs	5,841	5,348	-0.12%	5,735	1.86%	3.35%

E SOMESHINGS S	IN SECTION	me.	gertrag	(ALTICAL	diam'r d	etty	40.00	DE PER PER	SEE AND SEE	(80)1115	SERVICE TO	Chicken	\$400.03K	Cares
Overnight rate 3-month bill	2.10	4 L	0.05		3.30	0	3.38	6	3.30	0	3.30	0	2.25	6
2-year bond		-11	0.03 0.16	3	3.38 3.45	ď	3.87 4.39	-2	3.25	-5	3.55	-3	3.24	-13
5-year bond 16-year bond		45	1.38	3	4.59	4	4.75	4	4.12 4.73	-5 -5	4.18 4.93	-3	4.55 5.24	-13 -13
34-year bend		-00	1.44	2	5.15	-†	4,44	-1	5.24	-9	5.48	-6	5.51	-4

ES FIXED INCOME	2-year Family	M-year Panale	10-year prog sarrad	2-10 year UST spread	2-36 year UST spread
Current	0.00	5.45	82	188	236
Bps charge	tmehanged	4	13	4	2

EMERGING FIXED INCOME	Korea '08	Theland'll	Indonesia '66	Russia MinFin '97	Peland PD1	
Current Bps change	5.76 -2 Amendan Par	5.17 -2 Brank C	11.08 unchanged Marke Pag	13.59 unchanged <u>Venezuela DCB</u>	7.82 -1	
Current	65.26	14.46	9.88	15.30		
Bps change	251	52	26	3		

					Currence	ies			
		Change (In head operately terms) Percent Change (In Dollars per Unit Terms)							
	29-Nov	28-Nov	29-Nev	28-Nov	This week	This menth	This year	In 300	In '99
Japan	123,84	123.07	-0.6%	0.7%	0.3%	-1.1%	-8.2%	-11,956	11.3%
Euro	0.8876	0.8879	0.0%	0.5%	1.1%	-1.5%	-5.9%	-6.3%	-14.3%
EuroYea	109.91	109.22	0.6%	-0.3%	0.7%	-0.3%	2.0%	4.456	-22,3%
UK	1.4265	1.4263	0.0%	0.8%	1.2%	-1.9%	4,5%	-7.7%	-2.5%
Germany	2.2038	2.2829	0.0%	0.5%	1.0%	-1.5%	-6.2%	-6.8%	-13.8%
Australia	0.5179	9.5215	-0.7%	-0.9%	0.0%	3.0%	-7,3%	-14.9%	-0.5%
Canada	1.5810	1.5842	0.2%	0.0%	1.2%	0.5%	-5.5%	-3.7%	-1.0%
Gold	273.55	274.50	-0.3%	0.3%	0.2%	-2.1%	0.4%	-5.5%	-0.4%
Thailand	44.08	44.095	0.0%	-0.1%	0.2%	1.4%	-1.6%	-15.7%	-2.3%
Indonesia	10,412	10400	-0.1%	0.3%	0.8%	0.6%	-7.6%	-38,5%	14.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	51.95	51.95	0.0%	0.2%	0.1%	0.0%	-3.9%	-24,1%	-4.2%
South Korea	1,264	1267	0.2%	-0.6%	0.1%	2.1%	0.1%	-11,4%	6.0%
Taiwan	34.39	34.39	0.0%	0.1%	0.1%	0.3%	-3.8%	-5.5%	2.7%
Singapore	1.8330	1.8315	-0.1%	0.0%	0.3%	-0.5%	-5.7%	-4.1%	-1.0%
China.	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Beazil	2.5460	2.4820	-2.6%	-0.4%	-1.7%	5.6%	-30.6%	-8.0%	-33.1%
Mexico	9.2850	9.2675	-0.2%	-0.1%	-1.4%	0.0%	3.7%	-1.4%	4.1%
Chile	686.85	676.25	-1.6%	-0.8%	-1.5%	3.8%	-19.7%	-8.3%	-10.7%
Colombia	2,307.50	2308,55	0.0%	0.2%	0.3%	0.0%	-3.2%	-19.3%	-17.3%
Venezuela	746.55	746.00	4.1%	-0.1%	0.0%	4.4%	-6.7%	-7.8%	-13.0%
Peland	4.0811	4.0679	-0.3%	0.3%	0.9%	0.2%	1.2%	0.1%	-15.1%
Hungary	283.33	281.64	-0.6%	1.2%	1.4%	0.0%	-0.9%	-11.0%	-14.5%
Czech	37.320	37.501	0.5%	0.1%	1.0%	0.026	0.3%	-5.1%	-15.7%
Russia	29.945	29.945	0.056	0.0%	0.0%	-0.854	-4.9%	-3.6%	-25.2%
South Africa	10.2852	9.8626	-4.3%	0.4%	-3.3%	-8.954	-35.5%	-23,5%	-4.5%
Turkey	1,496,500	1,482,000	-1.0%	-0.6%	-0.2%	6.2%	-123,3%	-23.6%	-41.9%
Greece	383.95	383.79	0.0%	0.5%	1.0%	-1.5%	-6.2%	-10.2%	-13.9%
			I	quities (In	local curr	ency terms	,		$\overline{}$
	Unit Ch	nange			rcent Change				
	29-Nov	28-Nav	29-Nor	28-Nov	This rok	This my	This ye	In '90	In '99
D_{WW}	9829	9712	1.2%	-1.6%	-1.3%	8.3%	-8.9%	-6.2%	25.2%
Newlog	1933	1888	2.4%	-2.5%	1.6%	14.4%	-21.7%	-39.3%	85.6%

			E	Equities (In	local curr	ency terms)		
	Unit Cl	hange			roent Change				
	29-Nov	28-Nav	29-Nor	28-Nov	This rok	This my	This w	In '90	In '99
D_{WW}	9829	9712	1.2%	-1.6%	-1.3%	8.3%	-8.9%	-6.2%	25.2%
Newlog	1933	1888	2.4%	-2.5%	1.6%	14.4%	-21.7%	-39.3%	85.6%
Nikkei	10656	10625	0.3%	-3.0%	-0.4%	2.8%	-22,7%	-27.2%	36,8%
FT-SE 100	5209	5205	0.1%	-I.2%	-1.6%	3.3%	-16,3%	-10.2%	17,8%
DAX	4936	4916	0.4%	-2.8%	-4.2%	8.3%	-23.3%	-7.5%	39.1%
CAC-40	4446	4446	0.0%	-0.9%	-2.8%	2.4%	-25.0%	-0.5%	51.1%
Thailand	298	293	1.7%	-1.2%	0.4%	8.3%	10.7%	-44.1%	35,4%
Indonesia.	380	383	0.7%	0.5%	-0.7%	-0.9%	8.7%	-38.5%	70.1%
Malaysia	642	641	0.1%	0.4%	0.4%	7,0%	-5,5%	-16.3%	38.6%
Philippines	1128	1121	0.7%	0.8%	3.7%	13.6%	-24.5%	-30.3%	8.8%
Hong Kong	11091	11066	0.2%	-1.7%	-2.0%	10.1%	-26.5%	-11.0%	68.8%
South Korea	629	632	0.5%	-5.7%	-2.5%	16.9%	24.6%	-50.9%	82.8%
Taiwas.	4466	4448	0.4%	-2.9%	-1.254	14.4%	-5.9%	-43.9%	31.6%
Singapore	1454	1477	-1.5%	-1.7%	-0.3%	6.3%	-24.5%	-22.3%	78.0%
China	161	160.05	0.3%	0.6%	1.4%	2.7%	79.3%	136.2%	32.0%
Brazil*	12736	13019	-2.2%	-4.3%	-5.1%	12.1%	-16.5%	-10.7%	151.9%
Argentina*	201	212	-5.2%	-3.0%	-5.8%	-10.6%	-51.8%	-24.3%	28.0%
Mexico*	5841	5848	-0.1%	-0.2%	1.9%	5.5%	3.3%	-20.7%	80.1%
Chile	110	110	-0.1%	-1.85%	-3.2%	5.9%	13.7%	-32.6%	41.8%
Colombia	925	921	0.4%	-0.5%	0.8%	13.6%	29.7%	-28.6%	-9.3%
Venezuela	6323	6258	1.0%	-0.1%	-0.6%	-5.5%	-7.4%	26.0%	14.8%
Poland	14114	14214	-0.7%	-0.7%	-0.9%	2.8%	-20.9%	-1.3%	41.3%
Hungary	7211	7219	-0.1%	-0.3%	-0.2%	6.5%	-8.1%	-11.0%	39.8%
Czech	394	393	0.1%	-1.2%	-3.6%	4.9%	-17.7%	-2.3%	24.2%
Russia	224	224	-0.1%	-1.2%	-0.9%	9.6%	56.0%	-18.2%	197,4%
South Africa	9234	9258	-0.3%	-0.9%	-0.5%	8.1%	10.9%	-2.5%	57.3%
Turkey	10961	11129	-1.5%	-5.1%	-6.5%	11.3%	16.1%	-37.9%	485.4%
Geeoce	2699	2699	0.0%	0.0%	0.9%	9.3%	-20.4%	-38.8%	102.2%

Equities begin tracing in Brazil, Argentine, and Mexico at 800 a.m., 900 a.m. and 930 a.m. Eastern free respectively.

From:

Byrne, Kathleen

Sent:

Thursday, November 29, 2001 12:36 PM

To:

DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject:

Market Noon, Nov 29th

-- Treasuries' rally continues on concerns over Enron, timing of U.S recovery. Dollar, stocks are better bid, too, however.

U.S. Economy: Initial claims and help wanted data confirmed deteriorating employment conditions, while the highly volatile durable goods series spiked much higher, with a reasonable improvement in ex-defense orders. New home sales were very modestly higher. All in, participants have this week adopted a more tempered view about the timing of economic recovery, and are currently pricing in a 75% chance of 25 bps of easing at the Dec. 11 FOMC meeting. At this juncture, later contracts do not suggest further easing beyond Dec., or a return to a tightening mode before late Spring. (KByrne, 2-2054)

U.S. Treasuries: Prices rose further following the release of weaker-than-expected labor market data and on some continued concern about the repercussions from Enron's woes. Today's NYT reports Enron had to liquidate substantial positions in Eurodollar interest rate futures -- causing some dealers to describe Enron's collapse as a mini-LTCM and wonder what other positions Enron might still have on. While the rest of coupon curve is steeper, 2-year note is underperforming, reportedly on profit taking by hedge funds and on some talk Fed Gov Meyer's comments earlier this week may have been taken out of context. Several dealers noted today's buyback as a factor providing support to longer-dated Treasuries. All dealers continue to describe liquidity conditions in the Treasury market as "terrible," due to limited risk appetite and high volatility. (JCetina 2-2017)

U.S. Equities: Some contacts noted a moderation in bearish sentiment after a two-day sell-off, and admitted that U.S. indices may have been over-bought and technology share price/earnings ratios, over-stretched. In that context, evidence of sluggish U.S. performance and financial fall-out from Enron's difficulties had given investors an opportunity to take profits, whereas today, stocks are currently bid on durable goods orders and new home sales data insofar as the releases did not contain negative surprises. (KByrne, 2-2054)

Foreign Exchange: Dollar is off overnight lows against the major currencies, in what traders continue to categorize as relatively light volumes. Most view the general weakness of the dollar this week as a correction, not a fundamental change in market view. Participants remain reluctant to make directional calls on the euro vs. the dollar, until more solid economic data becomes available. In contrast, the fundament view on the yen appears to be distinctly negative with participants wondering when (not if) the yen will fall to 130. (LQuinn 2-9122)

LatAm: In today's FT the Argentine central bank's Blejer stated bridge financing was being looked into to meet year-end debt payments but expressed confidence the IMF Q4 "disbursement would come." Some participants thought the CB might provide direct financing to the GOA if the IMF does not disburse funds in Dec. The CB is already an indirect source of funds to the GOA via its repo activity to state banks. Other contacts thought the GOA might force local corporates to buy a "patriotic bond" as a bridge. The Argie EMBI+ has widened 211 bps to a historic high of 3,202 bps. Dealers cite several factors weighing: concern about shaky IMF support; expected weakness in Nov tax receipts; the conclusion Friday of the local swap; and the impending reduction in Argie bonds from the EMBI+ index post-local swap. Concern about Argie's currency board also continue to mount. Implied yields on one-month Argentine NDFs have risen further and now stand at 150% and overnight peso rates are at 200%. Some contacts note deposit data released last night for Monday showed early redemptions of CDs, suggesting capital flight may be poised to accelerate. (JCetina 2-2017)

Today's Events:	Time	Actual	Previous Period
Consensus Expectation			
US, Initial Jobless Claims, week ending Nov. 24	8:30AM	488 K	434 K (rev. from 427 K)
438 K			
US, Durable Goods Orders, October, m/m	8:30 AM	12.8%	-9.2% (rev. from -8.5%)
2.0%			
Durable Goods Ex. Defense		5.6%	-10% (rev. from 9.2%)
Durable Goods Ex. Transportation		3.4%	-6.4% (rev. from -5.5%)
US, New Home Sales, October	10:00 AM	880 K	878 K
853 K			



Noon Global Financial Markets

Treasuries' rally continues on concerns over Enron, timing of U.S recovery.
 Dollar, stocks are better bid, too, however.

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Equities	12-33 PM	Change
DJIA	9,244	0.33%
Maidag	1,914	0.33% 0.3% 0.3%
S&P 500	1,134	0.98%
Wilshire Tot Mks DJIA Vel. Conedian TSE Mexicon Bolsa	10,480	0.51%
DXA Vet	104,646,100	
Conedian TSE	7,393	0.47%
Mexicon Bolisa	5,834	-0.25%
Brazilias Boympa	12,739	-2.15%
0		

4,446

5.209

10.455

rench CAC-48

U.K. FTSE

U.S. Treasuries	12:33 PM	Charge bps
I-month bill	1.90%	-4
I-month bill	1.80%	-7
6-month bill	1.83%	-9
2-year	2.97%	-3
5-year	4.18%	-12
0-year	4.63%	-14
30-уелг	5.28%	-93

Money Markets	12:33 PM	Change has
Overreight rate	2.06%	unclunged
An. Fed Funds contract imp yield	1.80%	+

USD performance vs		12:33 PM	Change
Гаралене уев		123.86	1.65%
fare	5	0.8872	1.06%
Sterling	5	1.4234	0.18%
Switze (franc		1.6552	0.56%
Canadian dollar		1.2824	40.16°s
Mexican pero		9.276	0.04%
Brazilian real		2.526	0.60%

Other cross rates	12:33 PM	Change
Euror/year	109.86	0.55%
Euromater ling	0.6230	0.0%
ANGELO AND ROLLINGE AND	designation of the second	APPLICATION OF THE

Commodities	12:33 PM	Change
Gald	\$274.40	\$6.30
Gii (Brom)	\$18.57	<90.23
Near-dated NYMEX fleares contract.	\$18.77	-\$0.45

Today's Events: US, Initial Jobless Claims, week ending Nov. 24	Time	Actual		sersus Expectation
		488 K	434 K. (see, from 427 K)	438 K
US, Durable Goods Orders, October , m/m	8:30 AM	12.8%	-9.2% (rev. from -8.5%)	2.0%
Durable Goods Ex. Defense		5.6%	-10% (rev. from 9.2%)	
Durable Goods Ex. Transportation		3.4%	-6.4% (rev. from -5.5%)	
US, Now Home Sales, October	IGA 90:01	880 K	876 K.	853 K.

For Internal Use Only

Drafted by: Kathleen M.P. Byone 11/29/01 12:33 PM

GLOBAL FINANCIAL MARKETS 11/29/01 12:00 PM

			29-Sec		28-Nov			29-Nov	Friday's sky	8	This week		This year	
EREBIOHMANCE -	1911 (1984)	7549	MARCH TO	100000	1000	dann	War Indoor	はおきまとなる	Links o	900 - 611	0,000,271,1025	p.09	年 年 デールイ	×
Yen			123.78		123,47			0.57%	124.24		-0.37%		-6.19%	_
Encu			0.8880		0.8879			-0.01%	0,8783		-0.0926		-5.80%	
Storting			1,4233		1,4263			0.21%	1.4095		-0.97%		-4.66%	
Seeina			1.6541		1.5466			0.46%	1.6664		-0.74%		-2.67%	
Canadian 5			1.5827		1,5842			-0.09%	1.5994		-1.04%		-6.58%	
Australian S			0.5177		0.5215			0.73%	0.5178		0.03%		-7.36%	
Kurean won			1264.0		1267,0			-0.24%	1265.0		+0.08%		0.08%	-
Indensian rapiah			10412		10400			0.12%	18495		-0.79%		-7.62%	
Philippine peso			51.95		51.95			0.00%	52.00		-0.10%		-3.99%	
Thai bult			44,68		44.10			-0.03%	44.15		-0.16%		-1.97%	
Taiwan S			34.39		34,39			0.00%	34.42		-0.09%		-3.83%	
Polish zlety			4.079		4.068			0.27%	4.126		+1.00%		1,30%	Т
Rassium ruble			29.94		29.54			0.80%	29.94		0.00%		4.93%	
South African rand			10.196		9.863	_		3.38%	9,954		2.43%		-34.33%	
Mexican pero			9.305		9.268			0.40%	9.157		1.62%		3.49%	
Brazilian reid			2.517		2.482			1,41%	2.503		0.56%		-29.08%	
COMMODITIES	91.7909	/ J FREE	- Paran	nefer i p	Lagricus College	games a		14-1-6	18 8 M. A.	and a				
Gold			\$274.75		\$274.50			0.09%	\$272.50		0.68%		0.85%	
European Brent			518.44		\$18.81			-4.9756	\$19.40		-4.95%		-18.33%	
Near Nymes futures			\$18.62		\$19,32			-3.62%	\$18.96		-1.79%		-30.52%	
CR8 Index			\$189.79		\$188.96			0.44%	\$190.12		-0.17%		-16.70%	
EQUITIES	TO BOX	3745	1000	2004	or Stippe	SERVE A	files fire	o solica di	Na baselio	or Greek	Metal III		Maria de la	
Bury Jones			9,752		9,712			0.41%	9,960		-2.09%		-9.60%	
Nasdaq			1,913		1,888			1.34%	1,903		0.53%		-22.56%	
S&P 500			1,135		1,129			0.58%	1,150		-1.33%		-14.03%	
Nikdori 225			10,656		10,625			0.29%	10,697		-0.38%		-22,70%	
Japan Tapix			1,049		1,053			-0.45%	1,062		-1,31,76		-18.33%	
German DAX			4,950		4,916			0.72%	5,151		-3.88%		-23.04%	
French CAC-40			4,646		4,445			0.01%	4,574		-2.80%		-24.98%	
U.K. FTSE-100			5,219		5,205			0.06%	5,293		-1.60%	_	-16.30%	_
H.K. Hang Song			11,091 629		11,856			0.22%	11,322		-3.05%		-26.53%	
Kurum Kospi Taiwan Weighted			4.466		4.448			4.50%	645 4,519		-2.53% -1.18%		24.62%	
Folish Wig			14,114		14,214			40.71%	14,238		-1.18%			_
South African JSE			9,234		9,258			4.36%	9,280		-0.49%		-20,92% 16,91%	
Mexicas Bolsa			5,826		5,848			4.37%	5,235		1.60%		10.91%	
Brazilian Beerspa			12,812		13,019			-1.59%	13,424		4.56%		3,08%	
mastan berespa			12/014		12,019			-1.59%	13,424		4.36%		-16.04%	_
Facility State Capality Service	03	375.2	Smerra	(ALTO	#COVER S	3755	pace.	SULTE I	231115	ecirc,	leadean = 5 C	COMPAGE.	Sec. 10	Ü
Overmight rate	2.06	0	0.65	0	3.10	a	3.38	6	3.30	0	3.30	0	2.25	
-month bill	1,80	-7	0.63	1	3.38	0	3.87	1	3.23	-2	3.38	0	2.07	
year bond	2.99	-2	0.16	3	3.46	-3	4.40	-1	3.54	-3	3.57	-1	3.32	
-year bond	4.21	-8	0.55	3	4.12	-3	4.76	-2	4.14	-3	4.20	-1	4.62	
	4.86	-7	1.38	1	4.61	-4	4,69	-4	4.74	-4	4.94	-3	5.30	
10-şear bend 10-şear bend	5,30	-6	2.44	2	5.16	-5	4,44	-1	5.25	-5	5.49	-5	5.54	

US FIXED INCOME	I-war Family	16-actr Famile	16-war was spend	7-10 year UST spreaf	2-36 year UST spread
Current	0.01	5.52	74	187	230
Bps change	unchanged	l .	4	-5	4

EMERGING FIXED INCOME	Korea '68	Thailand '11	Indonesia Vid	Runta MinFin 47	Poleod PD1	
Current Bps change	5.81 2 Arecedina Ree	5.17 -2 <u>Brazil C</u>	11.48 unchanged Mexico Por	13.39 unrhanged Yenezoelu DCB	7.66 -3	
Current	66.93	14.35	8.89	15.33		
Bps change	458	41	7	6		

					-				
	1				Currence	ies			
	Wair Change (In			Pano	ant Changa	(In Dollars	man Floris To		
	29-Nev	28-Nov	20 . 20					-	
	23-140	23-309	29-Nav	28-Nov	This week	This wouth	Dita year	In '08	In '99
Japan	123.78	123.07	-0.6%	0.7%	0.4%	-1.0%	-8.2%	-11.9%	11.3%
Euro	0.8880	0.8879	0.05%	0.5%	1.1%	-1.4%	-5.8%	-6.3%	-14,3%
EuroYen	109.92	109.22	0.6%	-0.3%	0.7%	-0.3%	2,0%	4.4%	-22,3%
UK	1.4233	1.4263	-0.256	0.8%	1.0%	-2.2%	-4.7%	-7.7%	-2.5%
Germany	2.2033	2.2029	0.0%	0.5%	1.1%	-1.5%	-6.2%	-6.8%	-13.8%
Australia	0.5177	0.5215	-0.7%	-0.9%	0.0%	2.9%	-7,4%	-14.9%	-0.5%
Canada	1.5827	1.5842	0.1%	0.0%	1.0%	0.4%	-5.6%	-3.7%	-1.0%
Gold	274.75	274.50	0.1%	0.3%	0.7%	-1.7%	0.9%	-5.5%	-0.4%
Thailand	44.08	44.095	0.0%	-0.1%	0.2%	1.4%	-1.6%	-15.7%	-2.3%
Indonesia	10,412	10400	-0.1%	0.3%	0.8%	0.65%	-7.6%	-38.5%	14,5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.026	0.0%
Philippines	51.95	51.95	0.056	0.2%	0.1%	0.0%	-3.9%	-24.1%	4.2%
South Korea	1,264	1267	0.2%	-0.6%	0.1%	2.1%	0.1%	-11.4%	6,0%
Taiwan	34.39	34.39	0.0%	0.1%	0.1%	0.3%	-3.8%	-5.5%	2,7%
Singapore	1.8333	1.8315	-0.1%	0.0%	0.3%	-0.5%	-5.8%	-4.1%	-1.056
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.5170	2.4820	-1.4%	-0.4%	-0.6%	6.6%	-29,1%	-8.0%	-33.1%
Mexico	9.3050	9,2675	-0.4%	-0.1%	-1.6%	-0.2%	3.5%	-1.4%	4.1%
Chile	687.15	676.25	-1.6%	-0.8%	-1.6%	3.7%	-19.8%	-8.3%	-10,7%
Colombia	2,308.00	2308.55	0.4%	0.2%	0.3%	0.0%	-3.2%	-19.3%	-17,3%
Venezuela	746.75	746.00	-0.1%	-0.1%	-0.1%	-0.4%	-6.8%	-7.8%	-13.0%
Poland	4,0788	4.0679	-0.3%	0.3%	1.0%	0.3%	1.3%	0.1%	-15.1%
Hungary	283.24	281.64	-0.6%	1.2%	1.4%	0.0%	-0.9%	-11.0%	-14.5%
Czech	37.316	37,501	0.5%	0.1%	1.1%	0.0%	0.8%	-5.1%	-15.7%
Russia	29.945	29.945	0.0%	0.05%	0.0%	-0.8%	-4.9%	-3.6%	-25.2%
South Africa	10.1960	9.8626	-3.4%	0.4%	-2.4%	-8.0%	-34.3%	-23.5%	-4.5%
Turkey	1,498,000	1,482,000	-1.1%	-0.6%	-0.3%	6.1%	-123.5%	-23.6%	-41.9%
Groupe	383.86	383,79	0.0%	0.5%	1.1%	-1.5%	-6.2%	-10.2%	-13.9%

			1	quities (In			7		
	Unit CI	_		Pe	reent Change			V-	
	29-Nav	28-Nev	29-Nov	28-Nev	This wk	This me	This yr	In '60	In '99
Dave	9752	9712	0.4%	-1.6%	-2.1%	7.5%	-9.6%	-6.2%	25.2%
Nasday	1913	1888	1.3%	-2.5%	9.5%	13.2%	-22.6%	-39.3%	85.6%
Nikkel	19656	10625	0.3%	-3.0%	-0.4%	2.8%	-22.7%	-27.2%	36.8%
FT-SE 100	5209	5205	0.1%	-0.256	-1.6%	3.3%	-16.3%	-10.2%	17.8%
DAX	4951	4916	0.7%	-2.8%	-3.9%	8.6%	-23.0%	-7.5%·	39,1%
C4C-10	4446	4446	0.0%	-0.9%	-2.8%	2.4%	-25,056	-0.5%	51.1%
Thailand	298	293	1.7%	-1.2%	0.4%	8,3%	10.7%	-44.1%	35,4%
Indonesia	380	383	-0.7%	0.5%	-0,7%	-0.9%	-8.7%	-38,5%	79,1%
Malaysia	642	641	0.1%	0.4%	0.4%	7.05%	-5.5%	-16,3%	38,6%
Philippines	1128	1121	0.7%	0.8%	3,7%	13,6%	-24.5%	-30.3%	8,875
Hong Kong	11091	11066	0.2%	-1.7%	-2.0%	10.1%	-26.5%	-11,0%	68.856
South Korea	629	632	-0.5%	-5.7%	-2.5%	16.9%	24.6%	-50.9%	82,856
Taiwan	4466	4448	0.4%	-2.9%	-1.2%	14.4%	-5.9%	-43.9%	31.6%
Singapore	1454	1477	-1.5%	-1.7%	-0.3%	6.3%	-24.5%	-22.3%	78.0%
China	161	160.05	0.3%	0.6%	1.4%	2.7%	79.3%	136.2%	32,0%
Bruzil*	12812	13019	-1.6%	-4,3%	4.6%	12.7%	-16.0%	-10.7%	151.9%
Argentina*	200	212	-5.4%	-3.0%	-6.1%	-10.9%	-52.0%	-24.3%	28.0%
Mexico*	5826	5848	-0.4%	-0.2%	1.6%	5,2%	3.1%	-20.7%	80,1%
Chile	109	110	-0.5%	-1.8%	-3.5%	5,5%	13.2%	-32.6%	41.8%
Colombia	921	921	0.0%	-0.5%	0.4%	13.2%	29.3%	-28.6%	-9.3%
Venezuela.	6288	6258	0.5%	-0.1%	-1.2%	-6.0%	-7.9%	26,65%	14,8%
Poland	14114	14214	-0.7%	-0.7%	-0.9%	2.8%	-20.9%	-1.3%	41.3%
Hungary	7211	7219	-0.1%	-0.3%	-0.2%	6.5%	-8.1%	-11.05%	39.8%
Czech	394	393	0.1%	-1.2%	-3.6%	4,9%	-17,7%	-2.3%	24.2%
Russia	224	224	-0.1%	-1.2%	-0.9%	9.6%	56.0%	-18.2%	197,4%
South Africa	9234	9258	-0.3%	-0.9%	-0.5%	8.1%	10.9%	-2.5%	57.3%
Turkey	10961	11129	-1.5%	-5.1%	-6.5%	11.3%	16.1%	-37.9%	485,4%
Grecce	2699	2699	0.0%	0.0%	0.9%	9.3%	-20.4%	-38.8%	102.2%

^{*} Equities begin tracing in Brook, Argentina, and Mexico at 8:80 a.m., 9:00 a.m., and 9:30 a.m. Eastern time respectively.

From:

Byrne, Kathleen

Thursday, November 29, 2001 7:59 AM Sent:

DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-To:

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject: Market Morning Report, Nov 29th

-- Prospects of Enron's imminent collapse, concerns about U.S. economy and possible action in Iraq weigh on dollar, and selected stock markets.

Foreign Exchange: Dealers noted confusion and re-adjustment in fx markets today, as the Beige Book's confirmation of a still-weak U.S. economy and the specter of Enron's demise weighed on sentiment towards the U.S. and reduced the chances of near-term dollar appreciation attendant with MSCI's reweighting. Short term participants cut back on long dollar positions put on in anticipation of MSCI-related flows; for the first time in seven sessions, dollar/yen dipped below the Y123 level. Euro/dollar is currently testing the \$0.8900 level. Our contacts cited model-driven buying of euros and also noted that a key technical level in euro/yen (Y109.50) held. The ECB's Welteke said "when you look at purchasing power ... then I have a feeling the yen is overvalued and the euro is undervalued. We are interested in a strong value of the euro ... " The MOF's Kuroda agreed with Welteke that the euro is undervalued.

Japan: Despite a further slump in industrial output, JGB yields rose 2 to 4 bps across the coupon curve, impacted by concerns about potential sales to offset losses on Enron bonds. The Nikkei firmed somewhat, however, as investors shifted into defensive stocks. The BOJ policy board left policy unchanged, as expected, but EconMin Takenaka and Vice FinMin Muto urged the central bank to consider purchasing foreign bonds, with Muto noting "that [option] is the same as currency intervention.*

Emerging Asia: Stock markets in Singapore and South Korea in particular declined from the prospect of Enron's bankruptcy. The Philippine market rose today on better than expected GDP data (2.9% y/y), and is notably outperforming in the region on the week (+3.7%).

Emerging Markets: In emerging Europe, the marked underperformance of Turkish assets reflected concern over a potential military action in Iraq, Turkey's neighbor, as well as Turkey's hardened stance ahead of talks with Cypriot authorities next week. Against this backdrop, the release of the latest IMF loan tranche for Turkey elicited little reaction. Argentine bond prices are somewhat lower (EMBI+ sub-index at 3000) but the Brazilian real is significantly weaker.

Commodities: Oil prices are little changed to firmer, reflecting a very subdued market as companies review their exposure to Enron Corporation and await its imminent financial collapse. Dealers also remain vigitant about Russia's intentions to adjust output but now appear confident of smooth flow from Iraq.

U.S. Assets Overnight

Front-month futures contracts for major U.S. stock indices are somewhat higher, conveying little about the likely direction of prices at the New York open. U.S. Treasuries are railying across the coupon curve in anticipation of weak initial claims and durable goods reports later this morning.

Today's Events:	Time	Actual	Previous Period	Consensus
Expectation				
Japan, Industrial Production, October		-0.3% m/m	-2.9% m/m	-0.9%
m/m				
Japan, Vehicle Exports, October		4.4% m/m	-5.0% y/y	
France, Business Confidence, November		89.0	93.0	92.0
Italy, CPI (harmonized), November		2.3%	2.5% y/y	2.3% y/y
US, Initial Jobless Claims, week ending Nov. 24	8:30AM		427 K	438 K
US, Durable Goods Orders, October	8:30 AM		-8.5%	2.0%



 Prospects of Enron's imminent collapse, concerns about U.S. economy and possible action in Iruq weigh on dollar, and selected stock markets.

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Trace by	Media	ri Ana	Name .	30 S	3.3950
				7:56	

	17-2001 7-30-534					
USD versus		7:56 AM	Change			
Japanese yes		122,59	+0.13%			
Bure	8	0.8886	-0.10%			
Swrling	5	1.4261	40.00%			
Canodian dellar		1.5801	-0.25%			
Aussie dollar	5	0.5183	0.54%			
Thai bahr		44.02	40.11276			
Indonesias repiah		10402	0.1686			
Korean won		1259	-0.34%			

2	-0.05%
3	-0.05% -0.12%
	3

Equities	7:56 AM	Change
S&P Fatures	1,132	0.34%
Nilderi-225	10,656	0.29%
Thailard	297.87	1.67%
Indonesia	380.19	-0.71%
Ma.aysia	641.95	0.14%
Hong Kong	11,091	0.22%
S. Kierea	628.85	-0.50%
Taiwan	4,466	0.40%
	CHECK !	o di Bad
German Dax	4,943	0.55%
French CAC-40	4,461	0.33%
Ir.K. FTSE	5,197	-0.17%
Russia RTS	222.96	-0.41%
Peland WTG	14,189	-0.18%

U.S. Treasuries	7:56.AM	Change bus
3-month bill	1.87%	0
6-month bill	1.92%	0
2-year	4,62%	-3
5-yvar	4,25%	-5
10-year	4,90%	-3
30-vear	5,33%	-2

Credit Overseas	7:56 AM	Change bps
1-receth Earlbor	3.33%	D
10-yr German bund	4,62%	-3
1-month 3-Bills	0.43%	enchanged
10-yr JGB	1.38%	2
J-month C.K. hills	3.87%	2
10-yr U.K. gilt	4,71%	-2

Commodities	7:56 AM	Change
Gold.	\$274.90	\$0.50
Oil (Brent)	\$18.96	\$0.16

Today's Events:	Time	Actual	Previous Period	Consensus Expectation	_
Japan, Industrial Production, October		-0.3% m/m	-2.9% m/m	-0.9% m/m	
Japan, Vehicle Exports, October		4.4% m/m	-5.0% yrly		
France, Business Confidence, November		89.0	93.0	92.0	
Italy, CPI (harmonized), November		2.3%	2.5% y/y	2.3% y/y	
US, Initial Jobless Claims, week ending Nov. 24	8:30AM		427 K	438 K	
US, Durable Goods Orders, October	8:30 AM		-8.5%	2.0%	

Kathleen M.P. Syrne 11/29/01 7:56 AM

For Internal Use Only

GLOBAL FINANCIAL MARKETS 11/29/01 7:45 AM

			29-New		28-Nov			19-Nov.	Eriday's close	:	This week		This year
SPERSORMANCE: IC	o senire	n tegla	echipes.	第二年	ting laboration	Higgson	quitings.	99:38L), 6	THE REST OF STREET	N 16-40	GURBOUN ST.	To Sail	CHILD SERVICE
Yen			122.98		123.07			+0.00%	124.24		-0.02%		-2.50%
Kuro			0.8897		0.8879			-0.21%	0.8783		+1.28%		+8.61%
Sterling			1.4274		1.4263			4.08%	1,4095		-1.15%		+4,40%
Sivins			1.6478		1.6466			0.07%	1.6664		-0.12%		-2.28%
Caradian \$			1.5798		1.5842			4.31%	1.5994		-1.26%		-8.3674
Australian 5			0.5191		0.5215			0.46%	0.5178		-4.34%		-5.11%
Korean won			1270.8		1267.0			0.30%	1265.0		0.46%		-0.46%
Indenssion repish			10412		10400			0.12%	10495		-8.79%		+7,462,544
Philippine peer			52.04		51.95			0.12%	\$2,66		0.02%		-4.02%
Thai baht			44.04		44.10			-0.12%	44.15		-0.25%		-0.47%
Taiwan 5			34,47		34.39			0.15%	34.42 4.128		0.13%		1,43%
Polish alony			4.074		29.94			0.05%	29.94		0.08%		-5.8454
Ressian rubte			19.97 5.899		9,863			0.36%	9,954		-0.55%		-2.0024 -20.42%
South African rand	-		9.366		9.268			-0.02%	9,157		1,19%		3,65%
Mexican peso			2.505		2.483			0.91%	2,593		0.0676		-28,44%
Bradlise reil			4.595		2.460			0.5474	2,500		0.500.0		-
COMMODITIES	= > = D = =	M. TEGERAL	oko afari com	New Art	Serial Revenue	(O) THE	voin the	mh Vez (m	chiques con	e him	717		MARKET 150
Gold			\$2.75.05		5274.50			0.20%	\$272.90		0.7924		0.97%
Enropean Bront			\$18.96		\$18.51			0.90%	519.40		-2.27%		-16.03%
Near Nymes futures			\$19.29		\$19.32			-0.16%	518.96		1,34%		-28.02%
CRB Index			\$189,37		\$188.96			0.22%	\$190.12		-0.39%		-10.88%
Northelist ECENTIES	· 10000	n wish	on High	MA HA	SHOW S	معجدو	AURINE	reseaso.	SHEETS LEE	e i de la constante de la cons	Military Co.	- 46	- sightly-ion
Day Jones			9.712		9,712			0.00%	9.960		-2.49%		-9.97%
Nardau			1.558		1,585			0.00%	1,903		-0.80%		-23.58%
5 A P 500			1.129		1,129			0.00%	1,150		-1.90%		-14.52%
Nikkei 225			10.656		10,625			0.29%	10,697		-0.38%		-22.76%
Japan Tapix			1,049		1,053			-0.45%	1,062		-1.31%		-18.32%
German DAX			4.951		4,916			0.71%	5,151		-3.89%		-23.09%
French CAC-40			4,466		4,446			0.47%	4,574		-2.35%		-24.6 <i>0</i> %
U.K. FISE-100			5.192		5,205			-0.25%	5,393		-1,90%		-16.55%
H.K. Hang Song			11,091		11,066			0,22%	11,322		-1.05%		-26.55%
Korean Kospi			629		632			0.50%	645		-2.53%		24,62%
Taiwan Weighted			4,466		4,448			0.41%	4,519		-1.18%		-5.89°s
Polish Wig			14,201		14,214			-0.09%	14,238		+0.36%		-246.43% _m
South African JSE			9,231		9,258			-0.30%	9,280		4.53%		10.86%
Mexican Bolta			5,848		5,848			0.00%	5,735		1.98%		3.47%
Brazilion Bovespa			13,419		13,019			6.00%	13,424		-3.01%		-14.68%
Cara an Elea et albair alla	H INTERVALEN	20000	NO. III CAN FROM	2.2.7657	permana)	27907	THE SECOND	Contraction of	100 pril 200	2750	新新型/7年第 0	Det day	David 622
			0.05	0	3,30		3.38	6	3.36	9	3.30	0	2.25
Overnight nate	1.87	4	0.05		3.38	:	3.87	2	3.34	-1	3.38		2.04
k-mouth bill		159	B.16	- 3	3.38	ä	4.40	4	3.54	-2	3.58	ř	3.34
l-year bond	4.61 4.25	-5	0.55	ź	431	3	4.77	-1	4.15	-3	4.21	-1	4.67
Fyear bond O-year bond	4.25	-3	1.35	2	4.61	3	4.72	-6	4.76	-3	4.95	-2	5.34

05 FIXED INCOME	Zwar Panne	Marce Farnk	three map point	Elitera UsT great	2-to ever USF spread	計劃
Current	0,01	5.53	69	30	71	
Bps change	unchanged	2	-1	-162	-163	

EMERGING FIXED INCOME	Karea 208	Theiland "11	Indonesia '06	Rassia MinFin '97	Poland PD1	
Current Bus change	5.81. 2 Argratina Pag	5.17 -2 Brozil C	11.08 unchanged Mexico Par	13.39 unchanged <u>Vencenda DCB</u>	3.00	
Current	64.21	14.12	8.99	15.28		
Bps change	196	18	17	1		

					Currence	ies			
	Unit Change (In			- Dans	ent Chance	(In Dollars	ner Enie T	ermsi –	
	29-Nav	28-Nov	29-Nov	28-Nov	This week	This month	Dis year	<u>In '90</u>	<u>In '99</u>
Japan	122,98	123.07	6.1%	0.7%	1,0%	-0.4%	-7.5%	-11.9%	11.3%
Euro	0.8897	0.8879	0.2%	0.5%	1.3%	-1.2%	-5.6%	-6.3%	-14.3%
EuroYen	109,41	109.22	0.2%	-0.3%	0.3%	-0.8%	1.6%	4.4%	-22.3%
UK.	1.4274	1.4263	0.1%	0.8%	1.3%	-1.9%	-4.4%	-7.7%	-2.5%
Germany	2,1981	2.2029	0.2%	0.5%	1.3%	-1.2%	-5.9%	-6.8%	-13.8%
Austral a	0.5191	0.5215	-0.5%	-0.9%	0.2%	3.2%	-7.1%	-14.9%	-0.5%
Conada	1,5793	1.5842	0.3%	0.0%	1.3%	0.6%	-5.3%	-3.7%	-1.0%
Gold	275.05	274.50	0.2%	0.3%	0.8%	-1.6%	1,0%	-5.5%	-0.4%
Thailand	44.04	44.095	0.1%	-0.1%	0.2%	1.5%	-1.5%	-15.7%	-2.3%
Indonesia.	10,412	10400	-0.1%	0.3%	0.8%	0.6%	-7.6%	-38.5%	14.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	52.01	51.95	-0.1%	0.2%	0.0%	-0.1%	-4.0%	-24.1%	-4.2%
South Korea	1,271	1267	-0.3%	-0.6%	-0.5%	1.6%	-0.5%	-11.4%	6.0%
Taiwan	34.47 1.8293	34.39 1.8315	-0.2% 0.1%	0.1%	-0.1% 0.5%	0.1% -0.3%	-4.1% -5.5%	-5.5% -4.1%	2,7%
Singapore China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.5045	2,4820	-0.3%	-0.4%	-0.155	7.156	-28.4%	-8.0%	-33.1%
Mexico	9.2660	9.2675	0.0%	-0.1%	-1.2%	0.2%	3.9%	-1.4%	4.1%
Chile	689.75	676.25	-0.7%	-0.8%	-0.6%	4.6%	-18,6%	-8.3%	-10.7%
Colombia	2,308.55	2308.55	0.0%	0.2%	0,356	0.0%	-3.2%	-19.3%	-17.3%
Venczueln	746.00	746.00	0.0%	-0.1%	0.056	-0.3%	-6.6%	-7.8%	-13.0%
Poland	4.0738	4.0679	-0.1%	0.3%	1.156	0.4%	1.4%	0.1%	-15.0%
Hungary	281,80	281.64	-0.1%	1.2%	1.9%	0.5%	-0.4%	-11.0%	-14.5%
Czech	37.409	37.501	0.2%	0.1%	0.9%	-0.3%	0.6%	-5.1%	-15.7%
Russia	29,970	29,945	-0.1%	0.0%	-0.1%	-0.8%	-5.0%	-3.6%	-25.2%
South Africa	9,8985	9.8616	-0.4%	0.4%	0.6%	-4.8%	-30,4%	-23.5%	-4.5%
Turkey	1,489,000	1,482,000	-0.5%	-0.6%	0.3%	6.6%	-122.1%	-23.6%	-41.9%
Greece	382.96	383.79	0.2%	0.5%	1,3%	-1.2%	-6.0%	-10,2%	-13,9%
	Unit Ct	12004	E		local curr	ency terms	,		
	29-Nov	28-Nov	29-Nov	28-Nex	This wk	This mo	This 17	In '90	In '99
D				-1.6%	4.5%		-10.0%	-6.2%	25,2%
Dow Nasday	9712 1888	9712 1888	0.0%	-1.676 -2.5%	-0.8% -0.8%	7.4% 11.2%	-10.0% -23.6%	-39.3%	85.6%
Nikkei	10656	10625	0.3%	-3.0%	-0.4%	2.8%	-22.7%	-27.2%	36,8%
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Thoiland	298	293	1.7%	-1.2%	0.4%	8.3%	10.7%	-44.1%	35,4%
Indonesia	380	383	-0.7%	0.5%	-0.756	-0.9%	-8.7%	-38.5%	70.156
Malaysia	642	641	0.1%	0.4%	0.4%	7.0%	-5.5%	-16.3%	38.6%
Philippines	1128	1121	0.7%	0.8%	3.7%	13.6%	-24.5%	-30.3%	8.8%
Hong Kong	11091	11066	0.2%	-1.7%	-2.0%	10.1%	-26.5%	-11.0%	68.8%
South Kovea	629	632	-0.5%	-5.7%	-2.5%	16.9%	24,6%	-50.9%	82.8%
Taiwan	4456	4445	0.4%	-2.9%	-1.2%	14,4%	-5.9%	-43.9%	31.6%
Singapore	1454	1477	-1.5%	-1,7%	-0.3%	6.3%	-24,5%	-22.3%	78.0%
China	161	160.05	0.3%	0.6%	1.4%	2,7%	79.3%	136,2%	32.0%
Brazil*	13019	13019	0.0%	-4.3%	-3.0%	14.6%	-14.7%	-10.7%	151.9%
Argentina*	212	212	0.0%	-3.0%	-0.6%	-5.7%	-49.1%	-24.3%	28.0%
Makes Long P.	46.46	200.400	ALC PARTS	0.255	7.666	W. 4784	1 414	705.7762	MR 497

Mexico*

Colombia.

Venezuela

Poland

Hungary

Czech

Russia

Turkey

Greece

South Africa

Chile

5848

110

921

6258

14201

7184

392

223

9231

10872

2697

5848

110

921

6258

14214

7219

393

224

9258

11129

2699

0.024

0.0%

0.0%

0.0%

40,1%

-0.5%

4.1%

-0.45%

40.3%

-2.3%

-0.175

-0.2%

-1.8%

-0.5%

-0.1%

40.7%

-0.3%

-1.2%

-1.2%

40.9%

-5.1%

0.0%

2.0%

-3.1%

0.455

-1.75%

49,35%

4.4%

-4.056

-1.256

-0.5%

-7.2%

0.8%

5.6%

6,05%

13.2%

-6.4%

3.4%

6.1%

4.5%

9.3%

8.0%

10.4%

9.3%

3.5%

13,7%

29.3%

-8,5%

-20,4%

-8.5%

-18.0%

55.6%

10,9%

15,2%

-20.4%

-20.7%

-32.6%

-28.6%

26.0%

-1.3%

-11.0%

-2.3%

-18.2%

-2.5%

-37.9%

-38.8%

80.1%

41.8%

-9.3%

14.8%

41.3%

39.8%

24.2%

197,4%

57.3%

485,4%

102.2%

Equition begin yielding in Brazil, Agentina, and Mexico at 8:30 a.m., 9:40 a.m., and 9:30 a.m. Eastern line respectively.

From:

Byrne, Kathleen

Sent:

Wednesday, November 28, 2001 5:03 PM

To:

DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin.

Subject:

Closing Global Financial Markets - November 28, 2001

- -- S&P and Moody's downgrades of Enron's corporate rating to just below default status around mid-day was a focal point of financial market activity in the afternoon.
- -- The Fed's Beige Book confirmed persistent economic weakness in the U.S.

Foreign Exchange: The dollar closed weaker against all major currencies, weighed down by doubts about near-term recovery prospects in the U.S. and a second day of decline on U.S. equity markets.

U.S. Treasuries: Treasuries partially retraced earlier gains after a poorly-received \$21 billion two-year auction weighed. Supply concerns also weighed after White House Budget Director Daniels opined that the U.S. federal budget would not return to balance before FY 2005. Coupon curve steepening eased somewhat later in the day, with the 2-to-30 year spread closing only 4 bps higher and the 2-to-10 year, 2 bps higher. The steepening reflected this week's dovish comments by Fed officials, a flight-to-quality in light of Enron's problems and declining equity prices, and this afternoon, the Beige Book's confirmation of a still-weak U.S. economy.

Analysts noted the large size of today's two-year auction vis-a-vis the higher-than-expected yield of 3,008% (versus projections of 2.99%) and a very low bid to cover ratio of 1.51, vresus an average 2.47 bid to cover in the past ten auctions.

U.S. Equities: Major indices extended their losses in afternoon trading, as the specter of Enron's imminent financial collapse weighed on financial sector shares, especially Citigroup and JP Morgan.

Argentina: The implied yield on one-month Argentine peso NDFs moderated only slightly in afternoon trading to 115% but participants continue to question the viability of the country's exchange rate regime and withdraw deposits. The central bank's international reserves fell 1.1% between last Friday and Monday to \$21.029 billion, and bank deposits for the same time frame fell 0.08% to \$72.407 billion. This afternoon, Argentina postponed the start of of the provincial level debt swap, and will now take swap offers up until December 7.

Commodities: Oil prices rallied briefly on growing speculation that Russia will cooperate with OPEC in cutting output to stabilize the market. Participants appeared to cover short-positions but profit-taking left prices on the front-month Nymex contract little changed and on dated Brent, somewhat lower.

Tomorrow's Events:	Time	Actual	Previous Period	Consensus
Expectation				
Japan, Industrial Production, Oct	ober		-2.9% m/m	-0.9% m/m
Japan, Vehicle Exports, October			-5.0% y/y	
France, Business Confidence, N	ovember		93.0	92.0
Italy, CPI (harmonized), Novemb	er		2.5% y/y	2.3% y/y
US, Initial Jobless Claims, week			427 K	438 K
US, Durable Goods Orders, Octo	ber		-8.5%	2.0%



Closing Global Financial Markets

Newporther 28, 3065

Treasury Market School Unit, 622-2650

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Equities	4:57 PM	Change
DJIA	9,712	-1.63%
Nordaq	1,888	-2.48%
S&P 500	1,129	-1.83%
Wilshire Tot Mkt	10,427	-1.76%
DHA Vol.	252,196,300	
Canadian TSE	7,358	-1.40%
Mexican Bolsa	5,848	-0.21%
Brazilian Bosespa	13,019	4.29%
German Day	4,916	-2.84%
French CAC-40	4,446	-0.90%
L.K. FTSE	5,205	-1.15%
Nikkei-225	16,625	0.00%

U.S. Treasuries	4:57 PM	Change bps
I-month bill	1.93%	-7
3-month bill	1.87%	-5
6-month bill	1.92%	-7
2-year	3.04%	0
5-year	4.30%	1
10-year	4.93%	1
30-year	5.36%	2

Money Markets	4:57 PM	Change has
Overnight rate	0.00%	unchanged
Jan. Fed Funds	1.83%	
contract imp yld	1.4374	-2

USD versus		4:57 PM	Change
Japanese yen		123.04	-0.01%
Euro	5	0.8875	0.02%
Sterling	S	1.4260	-0.01%
Swiss franc		1.6461	0.01%
Canadian dollar		1.5838	-0.01%
Мехісан розо		9.263	0.00%
Betailing real		2.481	0.00%

Other cross rates	4:57 PM	Change
Euro/yen	109.15	-0.10%
Euro/sterling	0.6222	-0.02%

Commodities	4:57 PM	Change
Gold	5274.10	\$0.00
Oil (Beant)	518.81	-30.27
Near-dated NYMEX		
contract	\$19.32	50.10

Tomorrow's Events:	Time	Actual	Previous Period	Consensus Expectation	
Japan, Industrial Production, Octo	ber		-2.9% m/m	-0.9% m/m	
Japan, Vehicle Exports, October			-5.0% wV		
France, Business Confidence, No.	vember '		93.0	92.0	
Italy, CPI (harmonized), November	r		2.5% v/v	2.3% w/y	
US, Initial Jobless Claims, week er	nding Nov. 24		427 K	438 K	
US, Dwable Goods Orders, Octob	er		-8.5%	2.0%	

For Internal Use Only

Draffed by: Kathleen M.P. Byrne 11/28/01 4:58 PM

GLOBAL FINANCIAL MARKETS 11/28/01 4:15 PM

Yen Euro Sterling Sorius Conadian 5 Australian 5 Australian 5 Korean tren Indonesian repiah Philippine paso Thai bahe Taiwan 5 Polith alwy Russian ruble South African rand Mexican peso Brazilian reid	123, 0, 53 1, 42 1, 53 0, 55 126 104 44, 34, 4, 64 13, 9, 27 12, 48 13, 48 14,	11 90 59 64 43 16 7.0 90 90 90 91 91 91 91 91 91 91 91 91 91	123,59 0,8814 1,4149 1,6544 1,5950 0,5225 1360,0 94430 52,05 44,04 34,41 4,001 29,94		-0.71% -0.52% -0.77% -0.65% -0.55% -0.25% -0.29% -0.12% -0.06% -0.06%	124,24 0,8783 1,4995 1,4995 1,6964 1,5994 0,5178 1265,0 10495 52,00 44,15 34,42 4,120	48.91% -1.09% -1.18% -1.39% -0.95% -0.72% -0.10% -0.10% -0.12% -0.10%	-T.61% -5.79% -4.20% -2.19% -5.48% -6.46% -6.16% -7.49% -1.60% -1.60% -7.49% -1.60% -7.49% -1.60%
Starting Starting Switte Switte Connection 5 Australian 5 Australian 5 Korean tree Indonestion repitals Philippine paso Thai bals Taiwan 5 Polith story Russian rable South African rand Mesican poso	0.89 1.42 1.54 1.53 0.55 126 104 51.3 44 33.4 46 39.9	50 59 64 43 16 7.0 90 9 9	0.8834 1.4149 1.6564 1.8959 0.5225 1360.0 19430 52.05 44.04 34.41 4.001 29.04		-0.52% -0.77% -0.66% -0.55% -0.25% -0.29% -0.12% -0.06% -0.06%	0.8783 1.4995 1.6664 1.5994 0.5178 1265.0 10495 52.00 44.15 34.42	-1.09% -1.19% -1.39% -0.35% -0.72% -0.10% -0.10% -0.10% -0.10% -0.10%	6,79% 4,90% 4,30% 5,48% 4,46% 4,16% 4,16% 4,16% 4,16% 4,16%
Sterling Swites Canadian 5 Australian 5 Kerean won Indonesian regiah Philippine pena Thai baht Taiwan 5 Polith skey Ressian reble South African rand Mesican peso	1.40 1.56 0.55 126 104 51.3 44.4 34.3 4.0 19.9 9.30	99 64 43 16 7.0 99 99 99 18	1.4149 1.6564 1.5930 0.5225 1260.8 19438 52.05 44.04 34.41 4.001 29.94 8.962		-0.77% -0.68% -0.55% -0.77% -0.56% -0.29% -0.19% -0.12% -0.06% -0.35%	1.4995 1.6664 1.5994 6.5178 1265.0 10495 52.00 44.15 34.42	-1.15% -1.26% -0.95% -0.72% -0.16% -0.10% -0.12% -0.10%	-1.50% -2.19% -5.66% -6.66% -0.16% -7.49% -3.66% -1.60% -3.00%
Switzs Canadian 5 Austrollan 5 Karean won Indonesian rupiah Philippine paso Thai bubt Taiwas 5 Polith stury Russian ruble South African rand Mesican peso	1.54 1.55 0.52 126 44, 34, 4,0 39,3 9,33	64 43 16 7.0 19 19 19 19 19 19 19 19	1.6564 1.8930 0.5225 1260.0 89430 52.05 64.94 34.41 4.081 29.94 8.962		0.00% -0.55% 0.35% -0.29% -0.19% -0.12% -0.06%	1,6664 1,5994 6,5178 1265,0 10405 52,00 44,15 34,42	-1.38% -0.55% -0.72% 0.16% -0.91% -0.10% -0.12% -0.10%	-2.19% -6.68% -6.66% -6.66% -7.49% -7.49% -1.66% -7.63%
Consider 5 Australian 5 Karean won Indonesian rupish Philippine peso Thai buht Taiwan 5 Polith story Russian ruble South African rand Mesican peso	1.58 0.52 126' 104 513 64, 34,4 48 29,39 9,39	43 16 7,0 90 95 99 94 44 33	1.5930 0.5225 1260.0 99430 52.05 44,04 34,41 4.061 29,94 9,962		0.55% 0.35% 0.56% -0.29% -0.19% -0.06% -0.35%	1,5994 4,5178 1265,0 10405 52,00 44,15 34,42	-0.95% -0.72% -0.06% -0.91% -0.10% -0.12% -0.09%	-0.48% -0.46% -0.16% -7.49% -0.90% -1.60% -0.03%
Austrolian 5 Karean won Indonesian rupish Philippine peac Thai baht Taiwax 5 Polith thory Russian ruble South African rund Mexican peac	0.52 12.6* 10.4 51.3 64.1 34.3 4.6* 13.1 9.2 9.2	16 7,0 90 95 99 94 44 33	0.5225 1260.6 19438 52.05 44.04 34.41 4.081 29.94 9.962		0.17% 0.56% -0.29% -0.19% -0.12% -0.06%	0.5178 1265.0 10495 52.00 44.15 34.42	-0.72% 0.16% -0.91% -0.10% -0.12% -0.09%	-0.46% -0.16% -7.49% -0.96% -1.60% -0.83%
Karean won Indonesian rupish Philippine pean Thai baht Taiwan S Polith shoy Russian rubig South African rund Mesican peso	126' 104 \$1.3 44.4 34.3 4.00 139.1 9.30 9.20	7.0 90 95 99 95 44	1260.0 94439 52.05 44,04 34,41 4.081 29.94 9.962		0.56% -0.29% -0.19% -0.13% -0.06%	1245.0 10405 52.00 44.15 34.42	0.16% -0.91% -0.10% -0.12% -0.09%	40,16% -7,49% -3,96% -1,60% -3,83%
Indonesian rugiah Philippine paso Thai buht Taiwas S Polish story Russian ruble South African rand Mesican peso	104 41.3 44.1 34.3 4.0 139.1 9.3	99 99 99 19	99439 52.05 44.04 34.41 4.081 29.94 9.962		-0.29% -0.19% -0.12% -0.06% -0.33%	10495 52.00 44.15 34.42	-0.91% -0.10% -0.12% -0.09%	-7.49% -3.96% -1.60% -3.83%
Philippine pass Thai bulst Taiwas 5 Polish Jany Rassian ruble South African rand Mexican peso	\$1.3 64.1 34.2 4.66 39.3 9.36 9.25	5 0 9 8 4 3	52.05 44.94 34.41 4.001 29.94 9.962		-0.19% 0.12% -0.06% -0.33%	52.00 44.15 34.42	-0.10% -0.12% -0.09%	-3,94% -1,61% -3,83%
Thai bubt Taiwan 5 Polith shop Ressian rable South African rand Mexican peso	44, 34,3 4,60 19,1 9,30 9,21	6 9 18 14 3	44,94 34,41 4,081 29,94 9,962		0.12% -0.06% -0.35%	44.15 34.42	-0.12% -0.09%	-1.60% -3.83%
Taiwan 5 Polish shary Russian ruble South African rund Mexican pero	34.3 4.60 39.1 9.30 9.21	9 8 4 3	34.41 4.001 29.94 9.962		-0.06% -0.35%	34.42	-0.09%	-3.83%
Polish story Russian ruble South African rund Mesican peso	4.60 19.1 9.31 9.21	4 3	4.081 29.94 9.962		-6.35%			
Russian ruble South African rand Mesican peso	19.1 9.20 9.21	3	29.94 9.962			4.136		
South African rand Mesican peso	9.80	i .	9.962				-1.26%	1,50%
Mesican peso	9.27	Į.			0.00%	19.94	0.00%	-4.92%
			4 3.76		-1,00%	9.954	-4.92%	-29.94%
	2,40	and the same of th	9.260 2.471		0.11%	9.157	1.24%	3.84%
Draman real		i.e	2.471		0.45%	2,563	-0.84%	-17.18%
COMMODITIES	and its participal beings	Selver :	ery morning	AN Property	nest an	rvg". r usty	200	
Geld	5274	36	\$273.65		0.26%	\$272.90	0.53%	0.72%
European Brent	\$18.8	II.	\$19.09		-1.47%	\$19,40	-3.04%	-16.78%
Near Nymex futures	\$19.2	8	519.32		-0.20%	518.96	1,69%	-28.6659
CRB Index	\$188.	16	\$190.23		-0.67%	5190.12	-0.61%	-17.46%
ended EQUITIES	Control Spring Science	Serie indicate	est distribute	NAME OF STREET	g is low at	ideliyey is alto ve	Service - Committee	December of
Dow Junes	9,71		9,873		-1.63%	9,960	-2.49%	-9.97%
Nasdag	1,88		1,936		-2.48%	1,903	-0.80%	-23.58%
SAP 500	1,12		1,150		-1.83%	1,150	-1.90%	-14.52%
Nildadi 225	10,63		10,949		-2.96%	10,697	-0.67%	-22.93%s
Japan Topix	1,05		1,080		-2.44%	1,062	-0.86%	-17.95%
German DAX	4,91		5,060		-2.84%	5,151	4.56%	-23.59%
French CAC-40	4,14		4,486		-4.50%	4,574	-2.81%	-24.99% ₆
U.K. FTSE-100	5,20		5,166		-0.15%	5,293	-1.66%	-1635%
H.K. Hang Song	11.06		670		-1.73%	11,322	-2.26%	-26.69%
Korean Kospi	4.44		4.580		-5.68%	645	-2.64%	25.35%
Taiwan Weighted Polish Wig				-	-2,91%	4,519	-1.58%	-6.25%
South African JSE	14,21		9,318		-0.86% -0.86%	14,258	-0.17%	-20.36%
Mexican Baha	5,84		5,860		-0.21%	9,280 5,735	-0.24% 1.98%	11.19%
Brazilian Boyespa	5,840 13,01						41-0-4	3.42%
britatina novelga	13,91		13,643		-4.29%	13,424	-3.01%	-14,68%
STREET,	The state of the s	C. Hallow	demonitor.	2007 E 1 W20	panne	en e	0.00	12 Jan 2015
vernight nate	2.16 0 0.05		3.30	0 3.32	4	3.30 0	3,30 0	
month hill.	1.67 -5 0.03		3.58	0 3.85	0	3.25 -1	3.38 0	
year band	3.05 2 0.13	_		-14 4.41	-9	3.57 15	1.58 +1-	
-year bond 6-year bond	4.29 0 0.53 4.94 1 1.37		4.14	-12 4.78 -5 4.73	-5 -6	4.17 -11 4.28 -5	4.22 -1. 4.97 -6	

US FIXED INCOME	2-row Family	10-year Fannie	Mouse man second	2-18 war LST spread	2-10 year UST surged
Current	0.00	5.51	70	188	231
Bps change	uschunged	-6	-7	-1	1

EMERGING FIXED INCOME	Keres 98	Thoiland '11'	Indonesia '06	Russia MinFin '07	Paland PD1	
Current Bps change	5.79 -11 <u>Argentina Fac</u>	5.19 unchanged <u>Brazil C</u>	11.08 unchanged <u>Mexico Far</u>	13.19 unchanged Venezueia DCB	7.03	
Current	62,18	14.01	8.92	15.33		
Bps change	unchanged	44	-2	-4		

					Currenci	45			
	Unit Change (for			Perce	ent Change	(In Dollars	per Unit Te	rms) -	
	28-Nov	27-Nov	28-Nov	27-Nov	This week	This month	This year	Ln '09	In '99
Japan	123.11	123.99	0.7%	0.1%	0.9%	-0.5%	-7.6%	-11.9%	11.3%
Euro	0.8880	0.8834	0.5%	0.4%	1.1%	-1.4%	-5.8%	-6.3%	-14.3%
Euro Yen	109.34	109.58	-0.2%	0.4%	0.2%	-0.8%	1.5%	4,4%	-22.3%
UK	1.4259	1.4149	0.8%	0.2%	1.2%	-2.0%	-4.5%	-7,7%	-2.5%
Germany	2.2025	2.2141	0.5%	0.4%	1.1%	-1.4%	-6.1%	-6.8%	-13.8%
Australia	0.5216	0.5225	-0.2%	-0.9%	0.7%	3.7%	-6.7%	-14.9%	-0.5%
Canoda	1.5843	1.5930	0.5%	0.0%	0.9%	0.3%	-5.7%	-3.7%	-1.0%
Gold	274.35	273.65	0.3%	0.3%	0.5%	-8.9%	0.7%	-5.5%	-0.4%
Thailand	44.10	44.04	-0.1%	0.2%	0.1%	1.4%	-1,6%	-15.7%	-2.3%
Indonesia	10,400	10430	0.3%	-0.8%	0.9%	0.7%	7.5%	-38.5%	14.5%
Malaysia	3.80	3,80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philipp:nes	51.95	52.05	0.2%	-0.3%	0.1%	0.0%	-3.9%	-24.1%	4.2%
South Korea	1,267	1260	-0.6%	-0.2%	-0.2%	1.9%	-0.2%	-11.4%	6.0%
Taiwan	34.39	34.41	0.1%	0.0%	0.1%	0.3%	-3.8%	-5.5%	2.7%
Singapore	1.8315	1,8320	0.0%	0.1%	0.4%	-0.4%	-5.7%	-4.1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%6	0.0%	0.0%	0.0%	0.0%
Beazil	2,4826	2.4710	-0.4%	-0.6%	0.8%	7.9%	-27.3%	-8.0%	-33.1%
Mexico	9.2705	9.2600	-0.1%	-0.8%	-1.2%	0.2%	3.8%	-1.4%	4.1%
Chile	676.25	670,95	-0.8%	0.1%	0.0%	5.2%	-17.9%	-8.3%	-10.7%
Colombia	2,308.05	2312.05	0.2%	0.0%	0.3%	0.0%	-3.2%	-19.3%	-17.3%
Venezuela	746.00	745.50	-0.1%	0.1%	0.0%	-0.3%	-6.6%	-7.8%	-13.0%
Poland	4.0679	4.0813	0.3%	0.0%	1.3%	0.5%	1.6%	0.1%	-15.1%
Hungary	281.70	285.11	1.2%	0.2%	1.9%	0.6%	-0.3%	-11.0%	-14.5%
Cacch	37.497	37.529	0.1%	0.1%	0.6%	-0.5%	0.3%	-5.1%	-13.7%
Russia	29,945	29.945	0.0%	0.0%	0.0%	-9.8%	4.9%	-3.6%	-25.2%
South Africa	9.8626	9.9623	1.0%	0.4%	0.5%	4,4%	-29,9%	-23.5%	4.5%
Furlogy	1,482,000	1,472,500	-0.6%	0.4%	0.8%	7,129	-121.0%	-23.6%	-41.9%
Greece	383.73	385.75	0.5%	0.4%	1.1%	-1.4%	-6.2%	-10.2%	-13.9%
			I	quities (In			,		
	Unit Cl				reent Change				
	28-Nev	27-Nov	28-Nov	27-Nav	This wh	This mo	This st	In '00	In '99
Dow	9712	9873	-1.6%	-1.1%	-2.5%	7.0%	-10.0%	-6.2%	25.2%
Needing	1888	1936	-2.5%	-0.3%	-0.8%	11.7%	-23.6%	-39.3%	85.6%
ACCES - C	800.000	100.00	2.08	31.0004	48.70%	2.581	22.000	27.244	74.000

			1	equities (In			,		
	Unit Cl	hange		Pe	reent Change				
	28-Nov	22 <u>-Nov</u>	28-Nov	27-Nav	This wh	This mg	This IT	In '00	In. '99
Dow	9712	9873	-1.6%	-1.1%	-2.5%	7.0%	-10.0%	-6.2%	25.2%
Norday	1888	1936	-2.5%	-0.3%	-0.8%	11.7%	-23.6%	-39.3%	85.6%
Nikhei	10625	10949	-3.0%	-1,0%	-0.756	2.5%	-22.9%	-27.2%	36.8%
FT-SE 180	5205	5266	-1.2%	-0.7%	-1.796	3.3%	-16.3%	-10.2%	17.8%
DAX	4916	5060	-2.8%	-1.1%	-4.6%	7.8%	-23.6%	-7.5%	39.1%
C4C-48	4116	4486	-0.9%	-1.7%	-2.8%	2.4%	-25.0%	-0.5%	51.1%
Thaifand	293	296	-1.2%	1.3%	-1.3%	6.5%	8.8%	-44.1%	35.4%
Indonesia	383	381	0.5%	-0.1%	0.1%	-0.2%	-8,0%	-38.5%	70.1%
Malaysia	641	638	0.4%	-0.3%	0.2%	6.8%	-5.7%	-16.3%	38.6%
Philippines	1121	1112	0.8%	2.1%	3.0%	12.8%	-25.0%	-30.3%	8.8%
Hong Kong	11066	11262	-1.7%	-1.1%	-3.3%	9,8%	-26,7%	-11.0%	68,8%
South Korea	632	670	-5.7%	-0.7%	-2.0%	17.5%	25.2%	-50.9%	82,8%
Taiwan	4448	4580	-2.9%	-0.6%	-1.6%	13.9%	-6.2%	-43.9%	31.6%
Singapore	1477	1502	-1.7%	1.8%	1.3%	7.9%	-23,4%	-22,3%	78.0%
China	160	159.02	0.6%	0.8%	1.1%	2,4%	78,7%	136.2%	32,4%
Brazil*	13019	13603	4.3%	-1.1%	-3.0%	14.6%	-14.7%	-10.7%	151,956
Argentina*	212	219	~3.0%	-2.3%	-0.6%	-5.7%	-49.1%	-24.3%	28.0%
Mexico"	5848	5860	-0.2%	1.8%	2.0%	5.6%	3,5%	-20.7%	80.1%
Chile	110	112	-1.8%	-1.1%	-3,154	6.0%	13,7%	-32.6%	41.8%
Colombia.	921	926	-0.5%	0.5%	0.4%	13.2%	29.3%	-28.6%	-9.3%
Venezuela	6258	6264	-0.1%	-0.4%	-1.7%	-6.4%	-8.3%	26.0%	14.8%
Poland	14214	14312	-0.7%	0.5%	-0.2%	3.5%	-20.4%	-1.3%	41.3%
Hongary	7219	7238	-0.3%	-1.6%	-0.1%	6.6%	-8.0%	-11.0%	39.8%
Czech	393	398	-1.2%	-2.3%	-3.7%	4.8%	-17.8%	-2.3%	24.2%
Russia	224	227	-1.2%	0.2%	-0.8%	9.7%	56.2%	-18,2%	197.4%
South Africa	9258	9338	-0.9%	-0.4%	-0.2%	8.4%	11,2%	-2.5%	57.3%
Turkey	11129	11722	-5.1%	-2.8%	-5.8%	13.0%	17.9%	-37,9%	485.4%
Greece	2699	2700	0.0%	0.5%	0.9%	9,4%	-20.4%	-38.8%	102.2%

^{*} Equities begin trading in Brazil, Argentina, and Moxico at 9:00 a.m., 9:00 a.m., and 0:30 a.m. Easters time respectively.

From:

Byrne, Kathleen

Sent:

Wednesday, November 28, 2001 1:08 PM

To:

_DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin

Subject:

Market Noon Report, Nov 28th

 S&P's, and now Moody's downgrades of Enron are weighing on U.S. equity markets and, among other factors, giving Treasuries a flight-to-quality bid.

- Investors focused more acutely on Argentina's peg.

U.S. Fixed Income: Treasuries extended their rally today with the short end of the coupon curve outperforming, steepening the curve. Some dealers noted yesterday's weak consumer confidence data, dovish comments from Gov Meyer, and increasing worries that the economy may not be recovering near-term as factors bolstering Treasury prices. Mid-morning news that S&P downgraded Enron to junk grade helped the short-end extend its gains though some dealers said the impact of the news on the Treasury market was unclear—i.e., were accounts unloading Enron and buying Treasuries or was Enron itself engaged in transactions in the Treasury market. Dealers note liquidity in the market remains poor and volatility remains high, worringly near LTCM levels. At 1 p.m. results of today's \$21 billion 2-year note auction will be announced. In WI trading the 2-year note is currently priced at 2.97%. (JCetina, 2-2017)

Enron: S&P downgraded Enron by six notches to B- from BBB-, bring the company's debt to junk bond status and just one notch above default grade. S&P also suggested that the bankrupcty of Enron is a "distinct possibility" if the merger fails. Enron bonds fell 30 to 40 points in price terms this morning following the downgrade with dealers noting substantial forced selling of the bonds as a result of the downgrade to junk. Contacts report unsecured Enron debt is currently trading at \$25.50. Other credits in the sector are reportedly about 20 bps wider on the day in a defensive reaction. Moody's later downgraded Enron by five notches to B2, citing concerns about Enron's liquidity. (JCetina 2-2017)

U.S. Equities: Concerns about the timeliness of U.S. recovery and the durability of the recent tech rally weighed on the Nasdaq today. S&P's downgrade of Enron weighed heavily on its share price, as the ratings agency cited its own doubts about the completion of the proposed Dynegy merger. Market rumors that Dynegy would withdraw its offer weighed heavily on financial sector shares, which led declines on the DJIA and S&P 500. Following the subsequent downgrade by Moody's, the NYSE halted trading of Enron shares. (KByrne, 2-2054)

FX: The dollar is off against major currencies in the wake of fixed income market developments here and abroad. Key factors cited by market participants include the smaller than anticipated S&P downgrade of Japan's government debt and growing doubts about the significance of the end of month MSCI re-weighting for fx markets. (LQuinn 2-9122)

Latin America: Contacts look tonight for the release of deposit data for Monday, the first day after the central bank capped interest rates that local banks could pay on deposits. The overnight peso rate has spiked to 97.5%, up 5,250 bps, suggesting substantial deposit outflows. Forward points on Argentine NDFs continue to move to the right with the implied yield on the one-month now at 118%. (JCetina 2-2017)

Commodities: Today's EIA stock data corroborated yesterday's bearish API report and weighed especially on the Nymex front-month contract, although prices have since partially retraced and continue to hold within recent ranges as investors factor in uncertainty over Russia's intentions and the possible disruption of Iraqi supply.

Today's Events:	Time	Actual	Previous Period	Consensus
Expectation				
Japan, Retail Sales, October,		-4.9%	-3.0%	-3.5%
Euro-zone M3, October, y/y		7.4%	7.6%	6.9%
Poland, Monetary Policy Counci	l meeting (concl	usion) 11.5%	13%	11.5%
(150 bps cut)				
\$21 billion 2-year note auction				
Fed Beige Book		2:00 PM		



Noon Global Financial Markets

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11/28/01 1:05 PM

Equities	1:05 PM	Charge
DHA	9,767	-1.07%
Navdaq	1,914	-1 (2%
5&7 500	1,137	-3.09%
Withhire Tot Mks	10,507	41.01%
DIEA Vet	124,986,180	
Constitut TSE	7,395	-0.94%
Mexican Bolya	5,851	48.1619
Brazilian Bovego	13.254	42.92%
German Dax	4,940	-2.36° k
French CAC-41	4,496	-0.90%
U.K. PTSE	5,205	-1.15%
Nikkoi -325	10,625	43,9674

U.S. Treasuries	1:05 PM	Change bus
1-month bill	1.93%	
3-month bill	1,87%	-15
6-month bill	1.90%	.0
З-усая	2.93%	-2.0
5-year	4.19%	~10
10-year	4.65%	-8
50-year	5.32%	-2

Money Markets	1:05 PM	Change hps
Overright rate	2.00%	-6
lan. Fed Funds contract imp yield	1.52%	-4

USD performance vs		1:05 PM	Change
Гаралене уев		123.17	-0.58%
Euro	5	0.5872	-0.47%
Storking	5	1.4246	-0.65%
Swiss (hang		1.6468	-0.57%
Canadium dollar		1.5835	-0.62%
Mexican pess		9.28	0.24%
Brazilian rest		2.481	0.45%

Other cross rates	1:45 PM	Change
Euro/yon	109.3	48,19%
Buro/storting	0.6228	4215
CONTRACTOR OF STREET	CONTRACTOR OF THE REAL PROPERTY.	Marie Street Section

14.20	90.30
10.01	
18,81	-50.27
19.26	-59.22
	19.26

M	Today's Events: Japan, Retail Sales, October,	Time	Actual	Previous Period	Consensus Expectation
1	Japan, Retail Sales, October,		-4.9%	-3.0%	-3.5%
ı	Euro-zone M3, October, y/y		7.4%	7,6%	6.9%
ı	Poland, Monetary Policy Council meeting (conclus	ion)	11.5%	13%	11.5% (150 bps cut)
ı	\$21 billion 2-year note auction				
K	Poland, Monetary Policy Council meeting (conclus \$21 billion 2-year note auction Fed Beige Book	2:00 PM			

For Internal Line Only

Drafted by: Kathloon M.P. Byrne 11/28/01 1:05 PM

GLOBAL FINANCIAL MARKETS 11/28/01 12:00 PM

18 123.99 64 0.38534 18 1.41.69 85 1.6564 85 1.5930 15 0.5225 10 1260.0 10430 15 5.2.65 9 44.64 9 34.41 0 4.981 4 19.94 4 9.962 8 9.260 7 2.471		8.57% 124.24 4.34% 0.833 4.43% 1.4895 4.48% 1.6894 0.53% 1.5994 0.58% 0.5178 0.58% 1265.0 0.29% 10695 0.19% 52.00 0.11% 44.15 0.65% 44.15 0.65% 44.15 0.65% 44.15 0.65% 9.45% 4.120	-8.77% -8.91% -1.00% -1.00% -1.00% -2.91% -0.91% -0.10% -0.10% -0.14% -0.90% -1.45% -0.00% -1.45% -1.45% -1.45%	0.70% -0.97% -0.97% -0.97% -0.17% -0.17% -0.19% -0.19% -0.99% -0.57% -0.
64 0.8834 18 1.4149 85 1.6564 15 1.5930 15 0.5235 1.0 1261.0 10 16430 15 5 52.65 9 44.64 9 34.41 0 4.981 4 19.942 8 9.260		4.34% 0.8783 4.63% 1.4995 4.44% 1.6664 6.53% 0.51% 0.5178 0.58% 1265.0 0.29% 1265.0 0.19% 92.0 0.11% 44.15 0.65% 34.42 0.51% 4.120 0.00% 9.854 1.09% 9.854	-0.91% -1.00% -1.07% -0.95% -0.11% -0.16% -0.10% -0.10% -0.14% -0.09% -0.14% -0.00%	-5.97% -4.64% -2.32% -5.76% -6.67% -0.16% -7.49% -0.96% -1.59% -0.83% -1.75%
188 1.4149 85 1.6564 15 1.5936 15 6.5325 1.0 1268.0 10 16436 5 5.2.65 9 44.64 9 34.41 0 4.841 4 19.94 4 9.942 8 9.260		8.63% 1.4895 4.48% 1.6664 6.53% 1.5994 0.18% 0.51% 1265.0 0.29% 10695 0.19% 52.00 0.11% 44.15 0.65% 34.42 0.51% 4.120 6.00% 9.354	-1.00% -1.07% -0.23% -0.23% -0.25% -0.10% -0.10% -0.10% -0.14% -0.09% -1.45% -0.00%	-0.64% -2.32% -5.76% -6.67% -0.16% -7.49% -0.96% -1.99% -3.83% -1.75%
85 1,6564 15 1,5930 15 6,5235 10 1268,0 10 10430 5 52,05 9 44,64 9 34,41 0 4,881 4 19,94 4 9,982 8 9,260		0.48%, 1.6864 0.55%, 1.5994 0.18%, 0.5178 0.55%, 1265,0 0.29%, 10495 0.19%, 52,00 0.11%, 44,15 0.06%, 34,42 0.51%, 41,20 0.00%, 28,94 1,09%, 9,364	-1.07% -0.23% -0.71% -0.16% -0.16% -0.16% -0.16% -0.16% -0.06% -0.00%	-2.32% -5.76% -6.67% -0.67% -7.49% -5.96% -1.59% -3.52% 1.75%
15 1,593e 15 0,5225 10 1201,0 10 1043e 15 52.05 9 44.64 9 34.41 0 4.081 4 19.94 4 9,942 8 9,260	-	8.53% 1.5994 0.18% 0.5178 0.56% 1265.0 0.29% 10495 0.19% 52.00 0.18% 44.15 0.65% 34.42 0.05% 4.120 0.00% 9.354	4,53% 4,71% 6,16% 4,16% 4,16% 4,16% 4,16% 4,16% 4,16% 6,10%	-5.78% -6.67% -6.67% -7.49% -6.89% -1.99% -5.53% 1.75%
15 0.5235 10 1260.0 10 10436 5 52.65 9 44.64 9 34.41 0 4.841 4 19.94 4 9.942 8 9.260	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	0.19% 0.5178 0.56% 1265.0 0.29% 10695 0.19% 52.00 0.11% 44.15 0.055% 34.42 0.00% 20.95% 1.00% 9.354	-0.71% 0.16% -0.91% -0.10% -0.14% -0.09% -1.45% -0.00%	-0.67% -0.16% -7.49% -0.96% -1.99% -5.63% 1.75%
.0 1261.0 1043e 52.05 5 52.05 9 44.64 9 34.41 4 19.94 4 9.942 8 9.240		0.56% 1265.0 0.29% 10495 0.19% 52.00 0.11% 44.15 0.06% 34.42 0.00% 20.94 1.09% 9.354	0.16% -0.91% -0.10% -0.14% -0.14% -1.45% -0.00%	-0.18% -7.49% -0.99% -1.59% -0.63% 1.75%
00 10430 5 52.65 9 44.64 9 34.43 0 4.881 4 19.94 4 9.962 8 9.260		0.29% 10495 0.19% 52.00 0.18% 44.15 0.06% 34.42 0.01% 20.54 0.00% 20.54 1.09% 9.554	-0.91% -0.10% -0.14% -0.09% -1.45% 0.00%	-7.49% -8.66% -1.59% -3.63% 1.75%
5 52.65 9 44.64 9 34.41 0 4.881 4 29.94 4 9.942 8 9.260	-	0.15% 52.00 0.11% 44.15 0.06% 34.42 0.51% 4.120 0.00% 20.94 1.09% 9.954	-0.10% -0.14% -0.09% -1.45% 0.00%	-3.99% -1.59% -3.53% 1.75%
9 44.64 9 34.41 0 4.981 4 29.94 4 9.962 8 9.260		0.11% 44.15 0.06% 34.42 0.51% 4.120 0.00% 20.94 1.09% 9.954	-0.14% -0.09% -1.45% 0.00%	-1.59% -3.53% 1.75%
9 34.41 0 4.881 4 29.94 4 9.962 8 9.260	-	0.86% 34.43 0.51% 4.120 0.00% 20.94 1.00% 9.954	-0.09% -1.45% 0.00%	-3.53% 1.75%
0 4,881 4 19,94 4 9,982 8 9,260	-	0.51% 4.120 0.00% 29.94 1.00% 9.954	-1.45% 0.00%	1.75%
4 19.94 4 9.962 8 9.260		0.00% 29.94 1.09% 9.954	0.00%	
4 9.942 8 9.260	-	1.09% 9.954	210000	44.75753
8 9,260		Additional formation of the Park of		-29.82%
			1,32%	3,77%
		0.63% 2.503	-0.6675	-27,51%
				-4.27.0
alle detti i no buttalistic	geplani na kojalanskipa	A CONTRACTOR	ALCO ALCO	6147
10 \$273.65		0.38% \$272.90	0.66%	0.84%
			-2,88%	-16.56%
			0.55%	-28.58%
9 5190.23	.4	3,07% 5190.12	-0.02%	-16.56%
Historia Print Consideration	entate/Steps or las	en electricity .	Machine Miles	LISTORY N. I
			-1.81%	-9.34%
				-22.10%
				-13.75%
				-22.93%
				-17.95%
				-23.01%
				-24,99% -16,35%
				-26.69%
670		1.09% 11,322	-2.04%	25.25%
	*		-6.047s	
	-3	1.00% 4.519	.1 5846	
4,590		2.90% 4,519 1.68% 14.2%	-1.58% -0.17%	-6.25%
4,590 4 14,313	-4	1.68% 14,238	-0.17%	-6.35% -20.36%
4,590	. 4		119717	-6.25%
֡	4 \$19.09 4 \$19.32 19 \$199.23 9 9,873 5 1,936 9 1,350 5 10,549 5 1,680 6 4,486 6 4,186 6 11,262	4 \$19.09	4 \$19.09 -1.31% \$19.00 4 \$19.32 -0.83% \$18.96 19 \$199.23 -0.85% \$18.96 9 \$8.873 -0.85% \$190.12 9 9.873 -0.85% \$190.12 9 1.536 -0.85% 1.505 9 1.350 -0.85% 1.505 9 1.350 -0.85% 1.505 9 1.350 -0.85% 1.550 9 1.350 -0.85% 1.550 9 1.350 -0.85% 1.550 9 1.350 -0.85% 1.550 9 1.350 -0.85% 1.550 1.550 -0.85% 1.550 1.550 -0.85% 1.550 6 11.560 -0.85% 11.322	4 \$19.09 -1.31% \$19.48 -2.85% 4 \$19.32 -0.93% \$18.96 0.55% 99 \$199.23 -0.07% \$190.12 -0.02% 99 \$199.23 -0.07% \$190.12 -0.02% 99 \$199.23 -0.07% \$190.12 -0.02% 99 \$1.536 -0.55% 9.000 -1.81% 9.000 1.25% 99 \$1.556 -0.59% 1.500 -1.00% 99 \$1.556 -0.03% 1.550 -1.00% 99 \$1.556 -0.03% 1.550 -1.00% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.556 -0.05% 99 \$1.566% 99 \$1.566 99 \$1.562 -0.05% 99 \$1.566% 99 \$1.566 9

LIVELYED INCOME	Zense Pannie	18-scar Famile	18-year man series	2-10 year UST spread	3-50 sear USF agreed	- <u>\$1</u>
Current	0.00	5.46	45	195	240	
Ups change	unchanged	-10	-12	6	10	

EMERGING FINED INCOME	Karea '08	Theiland '11	Infeccia '06	Rusia MinFin 97	Poland PD1	
Current lips change	5.76 -43 Accepting Fac	5.19 unchanged Brazil C	11.08 unchanged Mexico Par	13.19 unchanged <u>Yenerada, DCB</u>	6.78 -4	
Current	63.25	13.87	8.94	15.26		
Bps change	107	29	D	-13		

					Currenci	las			
	Bair Charge die	local currence			Currence	ics			
	ters		-	Perce	ent Change	(In Dollars	per Unit Ta	rms) -	
	28-Nor	27-Nov	28-Nov	27-Npq	This work	This mouth	This year	In '89	In '99
Jupan.	123.28	123.99	0.6%	0.1%	0.8%	-0.7%	-7.8%	-11.9%	11.3%
Euro	0.8864	0.8834	0.3%	0.4%	0.9%	-1.6%	6.0%	-6.3%	-14,3%
Euro Yen.	109.27	109.58	-0.3%	0.4%	0.126	-0.95%	1.4%	4,4%6	-22.3%
UK.	1.4238	1.4149	0.6%	0.2%	1.0%	-2.1%	-4.6%	-7,7%	-2.5%
Germany	2.2965	2.2141	0.3%	0.4%	0.9%	-1.6%	-6.3%	-6.8%	-13.8%
Australia	0.5215	0.5225	-0.2%	-0.9%	0.7%	3.7%	-6.7%	-14,9%	-0.5%
Canado	1.5845	1.5930	0.5%	0.0%	0.9%	0.3%	-5.7%	-3.7%	-1.0%
Gold	274,70	273.65	0.4%	0.3%	0.7%	-1.7%	0.8%	-5.5%	-0.4%
Theiland	44.09	44.04	-0.1%	0.2%	0.1%	1.4%	-1.6%	-15.7%	-2.3%
Indonesia.	10,400	10430	0.3%	-0.8%	0.9%	0.7%	-7,5%	-38.5%	14.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.029	6,059	0.0%	0.0%
Philippines	51.95	52.05	0.2%	-0.3%	0.1%	0.029	-3,9%	-24.1%	4.2%
South Korea	1,267	1260	-0.6%	-0.2%	-0.2%	1.9%	-0.2%	-11,4%	6.0%
Taiwan	34.39	34.41	0.1%	0.02%	0.1%	0.3%	-3.8%	-5.5%	2,7%
Singapure	1.8324	1,8320	0.0%	0.126	0.356	-0.5%	-5.7%	-4.1%	-1.0%
Chipa	8.28	8.28	0.0%	0.014	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2,4865	2.4710	-0.6%	-0.6%	0.7%	7.8%	-27.5%	-8.0%	-33.1%
Mexico	9.2780	9.2600	-0.2%	-0.8%	-1.3%	0.1%	3.8%	-1.4%	4.1%
Chile	676.25	670.95	4.8%	0.1%	0.0%	5.2%	-17.9%	-8.3%	-10,7%
Colombia	2,311.50	2312.05	0.0%	0.0%	0.1%	-0.1%	-3.4%	-19.3%	-17.3%
Venezueia	746.25	745.50	-0.1%	0.1%	0.0%	-0.3%	-6.7%	-7.8%	-13.0%
Poland	4.0603	4.0813	0.5%	0.0%	1.4%	0.7%	1.754	0.1%	-15.1%
Hungary	282.20	285.11	1.0%	0.2%	1.8%	0.4%	-0.5%	-11,4%	-14.5%
Czech	37.552	37.529	-0.156	0.1%	0.5%	-0.7%	0.2%	-5.1%	-15.7%
Russia	29,945	29.945	0.0%	0.0%	0.0%	-0.8%	-4.9%	-3.6%	-25.2%
South Africa	9.8537	9.9623	1.1%	0.4%	1.0%	-4.3%	-29.8%	-23.5%	-4.5%
Turkey	1,482,000	1,472,500	-0.6%	0.4%	0.8%	7.1%	-121.4%	-23.6%	-41.9%
Greece	384.42	385.75	0.3%	0.4%	0.9%	-1.6%	-6,4%	-10.2%	-13.9%
						-			

				quities (In	local curr	ency terms)	-	
	Unit Cl	hange		Pe	rcent Change				
	28-Nov	27-Nev	28-Nov	27-New	This wk	This mo	This ye	Lu '09	In '99
Don	9779	9873	-0.9%	-1.1%	-1.8%	7.8%	-9.3%	-6.2%	25.2%
Nasdag	1925	1936	-0.4%	-0.3%	1,1%	13.9%	-22.1%	-39.3%	85.6%
Nikkei	10625	10949	-3.6%	-1.0%	-0.7%	2.5%	-22.9%	-27.2%	36.8%
FT-SE 100	5205	5266	-1.2%	-0.7%	-1.7%	3.3%	-16.3%	-10.2%	17.8%
DAX	4954	5060	-2.1%	-1.1%	-3.8%	8.7%	-23.0%	-7,5%	39.1%
C4C-49	4146	4486	-0.9%	-1.7%	-2.8%	2,4%	-25.0%	-0.5%	51.1%
Thailand	293	296	-1.2%	1,3%	4.3%	6.5%	8.8%	-44.1%	35.4%
Indonesia	383	381	0.5%	-0.156	0.1%	-0.2%	-8.0%	-38.5%	70.1%
Malaysia	641	638	0.4%	-0.3%	0.2%	6.8%	-5.7%	-16.3%	38.6%
Philippines	1121	1112	0.8%	2.1%	3.0%	12,8%	-25.0%	-30.3%	8.8%
Hong Keng	11066	11262	-1.7%	-L1%	-2.3%	9.8%	-26.7%	-11,0%	68.8%
South Korea	632	670	-5.7%	-0.7%	-2.0%	17.5%	25,2%	-50.9%	82.8%
Taiwan	4448	4580	2.9%	-0.6%	-1.6%	13.9%	-6.2%	-43.9%	31.6%
Singapore	1477	1502	-1.7%	1.8%	1.3%	7.9%	-23.4%	-22.3%	78,056
China	160	159.02	0.6%	0.8%	1.1%	2.4%	78,7%	136,2%	32.0%
Brazil*	13322	13603	-2.0%	-1.1%	-0.8%	17.2%	-12,7%	-10.7%	151.9%
Argentinu*	216	219	-1.3%	-2.3%	1.2%	-4.0%	48.2%	-24.3%	28.0%
Mexico*	5872	5860	0.2%	1.8%	2.4%	6.0%	3.9%	-20.7%	80.1%
Chile	111	112	-0.9%	-1.1%	-2.2%	6.9%	14.8%	-32.6%	41.8%
Colombia.	926	926	0.0%	0.5%	0.9%	13.7%	29.9%	-28.6%	-9.3%
Venezuela	6276	6264	0.2%	-0.4%	-1.4%	-6.2%	-8.1%	26,0%	14.8%
Poland	14214	14312	-0.7%	0.5%	-0.2%	3.5%	-20.4%	-1.3%	41.3%
Hungary	7219	7238	-0.3%	-1.6%	-8.1%	6.6%	-8.0%	-11.0%	39.8%
Czech	393	398	-1.2%	-2.3%	-3.7%	4.8%	-17.8%	-2.3%	24.2%
Russia	224	227	-1.2%	0.2%	-0.8%	9,7%	56.2%	-18.2%	197.4%
South Africa	9258	9338	-0.9%	-0.4%	-0.2%	8,4%	11.2%	-2.5%	57.3%
Turkey	11129	11722	-5.1%	-2.8%	-5.6%	13,0%	17,95%	-37.9%	485,4%
Greece	2699	2700	0.4%	0.5%	0.9%	9,4%	-20,4%	-38.8%	102.2%

[&]quot; Equities begin thating in Brazil, Argentine, and Maxico et 2.00 e.m., 3.00 e.m., and 3.50 e.m. Carden time respectively.

From:

Byrne, Kathleen

Sent:

Monday, November 26, 2001 12:18 PM

To:

DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin.

Subject:

Market Noon Report, Nov 26th

- -- Trading in various asset classes continues thin and quiet after holidays in the U.S. and Japan.
- -- In foreign exchange markets, MSCI's global stock index reweighting later this week remains the focus.

Foreign Exchange: Dollar modestly stronger over the morning in light trading (average for post-Thanksgiving week). Market focus is on the week-end MSCI re-weighting (which will be dollar and sterling positive), with lingering suspicions regarding future Japanese foreign bond buying fx policy. Market participants report dwindling liquidity conditions as investors, seeking to preserve profits, sideline themselves. (LQuinn 2-9122)

U.S. Equities: Dealers described activity as flat; the Nadaq has partially retraced from morning highs (reached on gains in chipmaker shares) and other major indices are now trading in negative territory, the latter weighed on by declining oil sector shares. Participants remain focused on Enron after last week's 48% fall in its share price, amid ongoing concerns that the company's dwindling cash supplies could lead Dynegy to reconsider its takeover bid. (KByrne, 2-2054)

U.S. Treasuries: Treasury prices are higher across the coupon curve, with the back-end outperforming, flattening the 2 to 10-year curve. The 2-year note is trading special in the repo market (i.e., rate to borrow securities from dealers is near zero) and the Fed conducted a coupon pass in the sector this morning, factors normally supportive of price. Nonetheless, the 2-year note continues to underperform modestly ahead of Wednesday's auction and gains in stocks as well as talk that a recovery could come as soon as Q1 '02. Dealers report good volume and note from a technical perspective Treasury prices look to be forming a base after this month's sharp sell-off. (JCetina 2-2017)

Interest Rate Futures: Market participants widely expect the Bank of Canada to cut interest rates by 50 basis points at tomorrow's policy meeting; the move is expected to weigh on the Canadian dollar, still trading near all-time lows versus the U.S. dollar. In the U.S., market contacts still expect another 25 basis points of easing by the FOMC on December 11th, and attribute the recent rise in implied yields (that suggest a moderation in expectations for monetary easing) to the recent sell-off in the U.S. Treasury market. (KByrne, 2-2054)

Europe: European bourses closed unchanged to lower, retracing earlier gains as the DJIA and S&P-500 traded into negative territory. Euro-area government bonds extended their earlier gains, in sympathy with price action in Treasuries and weakness in stocks, steepening continential yield curves. However, the U.K. gilt curve flattened on expectations that Chancellor Brown will cut the government's growth forecast and raise estimated borrowings in his pre-budget speech tomorrow. (JCetina 2-2017)

Latin America: Dollar/real broke through a key level at 2.50, furthering gains in the real. An IMF team has arrived in Argentina. EconMin Cavallo said over the weekend he would like to use \$3 billion in IMF money previously approved to enhance the debt swap for other purposes. Despite this bearish news, bond prices are higher, still dominated by technical factors -- short covering and tightness in the repo market. (JCetina 2-2017)

Commodities: Dated Brent's price slipped further, and Brent and Nymex crude futures fell sharply during the New York morning as dealers returned from the holiday weekend and reacted to Russia's offer on Friday to cut production by a mere 50,000 bpd. Oil prices remain above recent lows however, after last week's spike in reaction to initial perceptions of agreement among non-OPEC producers to cut production, but our contacts predict new lows absent Russia's cooperation. (KByrne, 2-2054)

Today's Events: Consensus Expectation No U.S. data releases today Time Actual

Previous Period



toon (dobal Rinancia Marke

-- Trading in various asset classes continues thin and quiet after holidays in the U.S. and Japan.

tary Market Arches v. Unit: 622

-- In foreign exchange markets, MSCI's global stock index reweighting later this week remains the focus.

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Equities	12:10 PM	Change
DAIA	9,914	-0.46%
Needing	1,915	0.99%
S&7 500	1,149	-0.14%
Withhire Tet Mki	10,586	-0.10%
DITA Vist	88,289,900	
Ctrudier TSE	7,424	+0.11%
Mexican Bolya	5,732	-0.05%
Brazilius Bovurpu	13,629	1.53%
German Dux	5,120	4604
French CAC-40	4,564	421%
U.K. FTSS	5,303	0.18%
Nikkei -225	11,064	3.44%

U.S. Treasuries	12:10 PM	Change bus
I-month bill	1.98%	-1
3-month bill	1.97%	-3
t-month bill	2.04%	-1
2-year	3.08%	-8
5-year	4.31%	.7
1.0-year	4.92%	-9
30-year	5,31%	.3

Money Markets	12:10 PM	Change bus
Overnight rate	2.00%	-6
Am. Fed Punds contract imp yield	1.90%	-2

USD performance vi	1	12:10 PM	Charge
Japanese yen		124.11	-0.095° a
Euro	5	0.6809	-0.48%
Sorting	5	1.4321	40.15%
Swiss franc		1.6631	40,19%
Canadian dollar		1.6902	9,16%
Mesican peso		9.1385	0.07%
Brazilias real		2.487	-0.56%

Other cross rates	12:10 PM	Change
Bunsiyan	109.39	0.70**
Sussisterling	0.6234	0.24%

Commedities	12:10 PM	Change
Gold	\$272.50	\$0.15
Oil (Breat)	\$18.57	-58.62
Near-dated NYMEX faters contract	\$18.73	-50.21

Today's Events:	Time	Actual	Previous Period	Consensus Expectation
No.11 S. data releases today				

Drafted by: Kathleen M.P. Byrne For Internal Use Only 11/26/01 12:16 P.V.

GLOBAL FINANCIAL MARKETS 11/26/01 12:00 PM

			26-New		25-New			26-Nav	Friday's sle	22	This week		This year
SPERFORMANCE		a de la la compania de compania del la compania del co	na setana.	distinct.	200-25-02	March.	使时效	00.50357	Charles of the	de la fin	MMR of Street		arriact o
Yes			124.24		124.24			0.00%	124.24		0.00%		-8,60%
Euro			0.8809		0.8783			-0.19%	0.8783		0.29%		-6.55%
Sterling			1.4128		1.4095			4,33%	1,4095		-0.23%		-5,38%
Swiss			1.6633		1.6664			-0.19%	1.6664		-0.19%		-3.24%
Constian 5			1.4000		1,5994			0.04%	1,5994		0.04%		-6.73%
Australian 5			0.5192		0.5178			-0.27%	0.5178		-4.27%		-5.08%
Kornas was			1260.0		1265.0			-0.40%	1265.0		-8.40%		4.46%
Indonesian rupiah			10350		10495			-1.38%	10495		-1.38%		-6.9876
Philippine peso			51.90		52.44			-0.19%	52.00		-0.19%		-3.89%
Thai built			44.16		44.15			0.02%	44.15		0.82%		-1.75%
Taiwan 5			34.42		34.42			0.00%	34.42		0.89%		-3.93%
Pelish zloty			4.685		4,120			-0.86%	4.120		-0.55%		1.16%
Russian rable South African rand			29.94		29.94 9.954			0.00%	29.94		0.00%		-0.92%
Mexican peno			9.165		9,451			-0.58%	9.954		-0.58%		-30.38%
Bradlias reâl			2.491		2.903			0.09%	9.157		0.09%		4.94%
meaning real			2.491		2.803			-0.48%	2.503		-0.48%		-27.74%
COMMODITIES		100	ge to pe	A partic	- Maria	ne prakti	4730	grand to the	cessar promo	n		_	
Gold			\$273.05		5272.90			0.85%	\$272.90		0.05%		0.24%
European Brent			\$18.53		519.40			-4.48%	\$19.40		-4.48%		-17.94%
Near Nymes futures			\$18.55		518.56			-2.1676	\$18,96		-2.16%		-38.78%
CRB lindex			\$189.76		\$190.12			-0.19%	5190.12		-0.15%		-16.73%
Calcula FORTIPS	15 - 15 Miles	chass	Sellie o	dia p	Selection (Se	et phine	displays	-	-	140	Market I .	1-8	warde de
Dow Jones			9,919		9,944			-0.41%	9,960		-0.41%		-8.85%
Nasalaq			1,915		1,913			0.64%	1,903		8,6476		-22.47%
S&P 500			1,149		1,150			-0.11%	1,150		-0.11%		43.96%
Nikhti 225			11,064		10,697			3,44%	10,697		3,44%		48.74%
Japan Topis			1,069		1,052			2,48%	1,062		2,48%		-15.19%
German DAX			5,122		5,151			-4.55%	5,151		-8.55%		-28,38%
French CAC-00			4,564		4,574			-4.21%	4,574		-8.21%		-22.98%
U.K. FT5E-100			5,303		5,293			0.18%	5,293		4,18%		-14.79%
H.K. Hang Seng								0.61%	11,322		0.61%		-24.53%
Kurean Kuspi Taiwan Weighted			675 4,976		645 4.519			4.55%	645		4.55%		33,681%
Poish Wig	-		14,237		14.238		-	1.97%	4,519		1,97%		-2.55%
South African JSE			9,178		9,280			-0.00%	14,238				-20.2316
Mexican Boba		_	5,736	_	5,735			0.00%	9,280		1.06%		12.64%
Brazilian Boyespa									5,735				1,4679
branius povespa			13,613		13,424			1.41%	13,424		1,41.%		-10.79%
ORCHIA SONI	U.S.	CSS (MAR-SOLD	CHIECT.	Berning	611/20	grass	0.72	12.5	86730		BLI VAN	pendig
vernight cate	2.06	0	0.05	0	3.28		3.36	4	3.28	4	3.28	0	2.66
rough bill.	1.97	-2	0.02	0	3.37	-0	3.84		3.24	-2	3,37	-1.	2.17
year bond	3.10	-6	0.12	i	3,47	-6	4.28	-1	3.31	-5	3.57	-5	3.38
year bond	4.31	-7	0.51	2	4.11	-3	4.66	-3	4.14	-2	4.19	-3	4.48
Scat poses													
0-year bood	4.92	-9	1.38	5	4.57	-4	4.67	-5	4.79	-4	4.90	-4	5.39

13 FIXED INCOME	2-year Fancie	10-year Fannie	District smap special	E-10 year UST spread	2-10 year UST spread
Correct	4.60	5.51	63	182	221
Bps change	unchanged	-8	+1	J	0

EMERGING FIXED INCOME	Korea '44	Thelland '()	Indonesia '96	Russia MinFin '07	Peland PD1	
Current Bps change	5.92 -2 Argentina Par	5.25 unchanged Brazil C	11.68 undkanged Mexico Par	13.09 unchanged Vencurela DCB	6.99 -3	
Current	57.20	13.40	8.93	15.68		
Bpt change	-892	-24	22	8		

	1				Currenci	es			
	Unit Change (In					a. n. u	XI W		
	Mm	·			Contract of the Contract of th	(In Dollars			
	26-Nor	23-Nav	26-Nov	23-Nav	This most	This mouth	This year	In '50	$I\pi$ '99
Jupan	124,24	124.24	0.0%	-0.2%	0.0%	-1.5%	-8.6%	-11.9%	11.3%
Euro	0.3809	0.8783	0.3%	0.0%	0.3%	-2.2%	-6.6%	-6.3%	-14.3%
EuroYen.	109.44	109.11	0.3%	0.2%	0.3%	-0.8%	1.6%	4.4%	-22.3%
UK	1.4128	1,4095	0.2%	-0.1%	0.2%	-2.9%	-5.4%	-7.7%	-2.5%
Germany	2.2198	2,2268	0.3%	0.0%	0.3%	-2.2%	-7.0%	-6.8%	-13.8%
Australia	0.5192	0.5178	0.3%	-0.9%	0.3%	3,2%	-7.1%	-14.9%	-0.5%
Careda	1.6901	1.5994	0.0%	0.0%	0.05%	-0.7%	-6.7%	-3.7%	-1.0%
Gold	273.05	272.90	0.1%	0.3%	0.156	-2.3%	0.2%	-5.5%	-0.4%
Thailand	44.16	44.15	0.056	0.5%	0.056	1.2%	-1.8%	-15.7%	-2.3%
Indonesia	10,350	10495	1.4%	0.5%	1.4%	1.2%	-7.0%	-38.5%	14.5%
Malaysia	3.80	3.89	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	51.90	52.00	0.2%	-0.1%	0.2%	0.1%	-3.8%	-24.1%	-4.2%
South Korea	1,260	1265	0.4%	1,05%	0.4%	2.4%	0.4%	-11,4%	6.0%
Taiwan	34.42	34.42	0.0%	0.2%	0.0%	0.2%	-3.9%	-5.5%	2.7%
Singapore	1.8338	1.8384	0.3%	0.256	0.3%	-0.6%	-5.8%	-4.1%	-1.056
China	8.28	8.28	0.0%	0.056	0.0%	0.0%	0.0%	0.0%	0.056
Brazil.	2,4910	2.5030	0.5%	1.2%	0.5%	7.6%	-27,7%	-8.0%	-33.1%
Mexico	9.1650	9.1570	-0.1%	-0.1%	-0.1%	1.3%	4.956	-1.4%	4.1%
Chile.	671.95	676.45	0.7%	0.1%	9.7%	5.8%	-17,1%	-8.3%	-10.7%
Colombia	2,312.00	2314.75	0.1%	0.2%	0.1%	-0.226	-3.4%	-19,3%	-17.3%
Versezuela.	746.01	746.25	0.0%	-0.2%	0.05%	-0.3%	-6.6%	-7.8%	-13.0%
Poland	4.0845	4.1200	0.9%	-0.4%	0.9%	0.1%	1,2%	0.1%	-15.1%
Hungary	285.25	287.27	0.7%	-0.2%	0.7%	-0.7%	-1.6%	-11.0%	-14.5%
Czoch	37.628	37.741	0.3%	0.1%	0.3%	-0.9%	0.0%	-5.1%	-15.7%
Russia	29.945	29.945	0.0%	0.1%	0.0%	-0.8%	-4.9%	-3.6%	-25.2%
South Africa	9.8962	9.9537	0.6%	0.4%	0.6%	-4.8%	-30.4%	-23.5%	-4.5%
Turkey	1,479,500	1,494,000	1.0%	0.4%	1.0%	7.1%	-120.7%	-23.6%	-41.9%
Greece	386.74	387.97	0.3%	0.0%	0.3%	-2.2%	-7,0%	-10.2%	-13.9%

				quities (In	local curr	ency terms)		
	Unit Cl	tange		Pc	reent Change				
	26-Nor	23-Nov	$26\pi Noe$	23-Nov	This wik	This mo	This er	In '00	In 99
Dorr	9919	9960	-0.4%	1.3%	-0.4%	9.3%	-8.0%	-6.2%	25.2%
Nandag	1915	1903	0.6%	1.5%	0.6%	13.3%	-22.5%	-39,3%	85.6%
Nikkei	11064	10697	3,4%	0.0%	3.4%	6.7%	-19.7%	-27.2%	36.8%
FT-SE 199	5303	5293	0.2%	-1.056	0.2%	5.2%	-14.8%	-10.2%	17.8%
DAX	5122	5151	-0.6%	0.5%	-0.6%	12,4%	-20.4%	-7.5%	39.1%
C4C-49	4564	4574	-0.2%	-0.6%	-0.2%	5.1%	-23.0%	-0.5%	51.1%
Thaikand	293	297	-1,4%	1.2%	-1.4%	6.4%	8.7%	-44.1%	35,4%
Indonesia	381	383	-0.3%	0.5%	-0.3%	-0.6%	-8.4%	-38.5%	70.1%
Malaysia.	640	640	0.1%	1.0%	0.1%	6.7%	-5,8%	-16.3%	38.6%
Philippines	1088	1088	0.0%	2.0%	0.0%	9.6%	-27.2%	-30.3%	8.8%
Hong Kong	11392	11322	0.6%	0.6%	0.6%	13.1%	-24.5%	-11.0%	68,8%
South Kurea	675	645	4.6%	3.3%	4.6%	25.4%	33,7%	-50.9%	82.8%
Taiwan	4608	4519	2.0%	1.6%	2.0%	18.1%	-2.9%	-43.9%	31.6%
Singapore	1476	1458	1.2%	0.5%	1.2%	7.9%	-23,4%	-22.3%	78.0%
China	158	158.33	-0.4%	9.0%	-0.4%	9.9%	76,1%	136.2%	32.6%
Brazil*	13613	13424	1.4%	3.1%	1.4%	19,8%	-10.8%	-10.7%	151.9%
Argentina*	223	213	4.4%	2.2%	4.47%	-1.0%	-46.6%	-24.3%	28.0%
Mexico*	5735	5735	0.0%	0.9%	0.0%	3.6%	1.5%	-20.7%	80.1%
Chile	112	113	-0.9%	0.056	-0.9%	8,3%	16.3%	-32,6%	41.8%
Colombia	917	917	0.0%	-0.8%	0.0%	12.7%	28.7%	-28,6%	-9.3%
Venezuela	6316	6364	-0.8%	1.2%	-0.8%	-5.6%	-7.5%	26,6%	14.8%
Poland	14237	14238	0.0%	-0.3%	0.0%	3.4%	-20.2%	-1.3%	41.3%
Hungary	7358	7226	1.8%	L2%	1,859	8.6%	-6.3%	-11.05%	39,8%
Czech	408	409	-0.2%	0.2%	-0.25%	8,6%	-14.8%	-2.3%	24.2%
Russia	226	226	0.2%	-1.7%	0.256	10.8%	57.8%	-18.256	197.4%
South Africa.	9378	9280	1.8%	-0.1%	1,1%	9.8%	12.6%	-2.5%	57.3%
Turkey	12063	11719	2.9%	-1.2%	2.9%	22.5%	27.8%	-37.9%	485,4%
Greece	2686	2675	0.4%	-2.7%	0.4%	8.8%	-20.7%	-38.8%	102,2%

Equities begin vacing in Brazil, Argentina, and Mexico at 8:00 a.m., 8:00 a.m., and 9:30 a.m. Eastern time respectively.

From:

Sharer, James

Sent:

Friday, November 23, 2001 1:26 PM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Afternoon Report 11/23/01

- -- U.S. equities rallied in an abbreviated session.
- Treasury prices were weaker as investors favored equities.
- -- Dollar strengthened against the yen and European currencies.

U.S. Markets

U.S. equity markets closed higher in light holiday trading, aided by gains in finance, auto and retail stocks. Oil issues recovered despite Russia's decision to cut oil production by only a marginal amount. Enron closed down 6.6% to 4.68 on concerns about the firm's financial condition and the Dynergy takeover. The NYSE closed early at 1 PM today. The best stock performers were financial, software, communication equipment, bank and oil issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to 1/2 point in very light trading, reflecting some profit-taking and strength in the U.S. equity market. The Treasury cash market will close early at 2 PM for the Thanksgiving holiday. In WI trading the Treasury 2-year notes were bid at 3.22%. The December Federal funds futures contract rose 1 basis point to 1.93%. The January and February contracts were each up 1 bp to 1.92% and 1.91%. (JSharer 2-2042)

Commodities: The NYMEX was closed for the holiday. In very thin trading Brent crude prices dropped significantly on news that Russia will cut production by only 50,000 bpd during Q4, dispelling widely-reported views that a significant agreement among major non-OPEC producers was at hand. Russia's offer falls significantly short of Norway's 100,000-200,000 bpd proposed contribution, along with Russia and Mexico, to meet OPEC's 500,000 bpd prerequisite cut. (KByrne, 2-2054)

Global Markets

Foreign Exchange: In a quiet New York session, dollar/yen traded convincingly above the Y124 level for the first time since late July. Market participants especially focused on Financial Times articles in recent days suggesting the possibility of the BOJ purchasing U.S. Treasuries to help weaken the yen and increase domestic liquidity. Our contacts predict a significant weakening of the yen were Japan to embark on such a strategy. (KByrne, 2-2054)

Europe: German bund yields retraced some of the early morning declines to end the session down 2 to 3 bps. News of weak German inflation data was partially offset by a recovery in the German equity market. The DAX closed up 0.5% today. U.K. gilt yields were down 1 to 3 bps, supported by a 1.0% decline in the FTSE today. (JSharer 2-2042)

Turkey's National 100 index was down 1.2% to 11,719, while the lira was 0.4% firmer. The Turkish EMBI+ sub-index narrowed 16 bps to 760 bps. (JSharer 2-2042)

Argentina: The EMBI+ sub-index is 65 bps narrower at 2961 bps as two more Argentine provinces agreed to accept cuts in federal funding, even though participants' concerns about timely disbursement of the \$1.3 million IMF tranche remain. Notwithstanding savings on debt servicing that will accrue from the current debt swap operation (concluding November 30), many contacts maintain that, despite government denials, the "zero deficit" pledge cannot be met without canceling payment of year-end public sector bonuses. (KByrne, 2-2054)



Noon Global Financial Markets

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- -- Treasury prices were weaker as investors favored equities.
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Equities	1:07 PM	Change
DJIA	9,960	1.27%
DATA Nandrug S&P 500 Wildrigs Tot Mki DOTA, Vol.	1,903	1.49%
5&7 500	1,150	1.77%
Withhire Tot Mki	30,589	1.00%
DMA Val.	29,047,000	
Capadian TSE	7,397	0.66%
Mexican Bolsa	5,712	6,47%
Brazilias Bovespa	19,523	3.86%
Gorman Dux	5,134	0.89%
French CAC-45	4 534	A1 8861

5.283

10.697

U.K. FTSE

4.86%

0.536

U.S. Treasuries	1:07 PM	Change bps
I-mounth bill	1.58%	1
3-month bill:	1.99%	4
6-month bill.	2.05%	-373
1-yyar	3.16%	6
f-yzar	4.38%	
10-year	5.01%	4
H-year	5.38%	

1:97 PM	Change bus
1.94%	wach anged
1.92%	ı
	1.94%

USD performance	15	1:07 PNI	Change
Japanese yen		124.33	0.31%
Euro	5	0.5780	41/12%
Sterling	\$	1.4102	0.09%
Swincfish:		1.9966	0.32%
Casadian dellar		1.5988	-0.02%
Мехіска реве		9.15	0.11%
Brazilian end		2.502	-1.19%

Other erros rafes	1:07 PM	Change
Ewo'ywr	109.16	0.15%
Daro Meeting	0.6223	0.11°%

Commodities	1:07 PM	Change
Gol4	\$272.65	94.85
Oil (Bront)	519.40	-94.34
Near-dated NYMEX fatures consum	\$18.96	-50.79

Consenus Expectation Previous Period Today's Events: Actual.

No U.S. economic data released. Early market close today.

> Drafted by: Jim Sharer 11/23/01 1:16 PM

GLOBAL FINANCIAL MARKETS 11/23/01 12:00 PM

			22-Mrs		22-Nov			23-Nov	Friday's do	10	This week		This year
PERFORMANCE	10-14039-00	200	rzeja jost	889 P.	chickerial	ger in	gia selegi.	4-300	Color Billion	open Report	P0564-2	100	Agricultural of the
Yen			124,44		123.94			4.46%	133.94		1,32%		-8.77%
Eara			0.8772		0.8782			0.11%	0,8846		0.84%		-6.54%
Storting			1,4097		1.4115			0.13%	1.4271		1.24%		一家,是多可有
Stellas			1.6681		1.6611			0.42%	1.6582		0.60%		-3.54%k
Constian S			1.5978		1.5996			-0.12%	1,5903		0.47%		-6.58%
Australian 5			0.5172		6.5173 1277.6	_		0.02%	0.5225 1238.0		1.02%		-7.4556
Korean won Indonesian rupiah			1345.0		10550			-0.52%	10635		-1.02% -1.32%		0.00%
Philippine peso			52.00		51.95			0.00%	51.95		0.10%		48,00%
That bolt			44.15		44.35			-0.45%	44.51		-0.8974		-1.73%
Taiwan S			34.42		34.49			-0.20%	34.45		-0.09%		-3.93%
Polish zloty		_	4,114		4,542			0.30%	4.108		0.16%	_	0.45%
Russian ruble			29.94		29.96			-0.05%	29.84		0.36%		44.92%
South African rand			9.943		9,934			-0.11%	9.566		4,15%		-31.2e%
Mexican peso			9.150		9.145			0.05%	9.205		-0.59%		\$.09%
Brazilian reill			2.512		2.533			-0.85%	2.526		-0.57%		-28.79%
COMMODITIES	-	or fresh	e district	opit,	ah ekiliki	y de	STATE OF	137 11.	- 1-1	551.5	75.00	_	
Guld			5272.90		\$172.85			0.02%	\$274.85		-8.71%		0.18%
European Brent			\$19.27		\$19,65			-1.93%	\$16.86		14.29%		-84.86%
Near Nymex futures			\$18.96		\$18,96			0.00%	\$18.03		5.16%		-29.35%
CRB Index			\$190.51		\$190.12			0.21%	\$188.39		L13%		-16.38%
AND EXCHANGE	1,000,000	1500	SERVER A	districts	apart de la comp	Harl.	kaj pojetoj	4944410	rietplate.	45,020.0	GR61	- 95	95-34W -0
Dow Jones			9,917		9,835			0.84%	9,867		0.51%		-8.66%
Nasdaq S&P 500			1,899		1,875			0.84%	1,139		0.00%		-33.15% -13.15%
Nikui 225			10.687		10,697			0.00%	10,649		0.45%		-12.41% -22.41%
Japan Topis			1,062		1,862			0.00%	1,053		0.90%		47,23%
German DAX			5,128		5,125			0.06%	5,063		1.28%		-20.30%
French CAC-40			4,574		4,600			-0.56%	4,587		-0.29%		-22.82%
U.K. FTSE-100			5,293		5,346			+0.99%	5.291		0.04%		-14.93%
H.K. Hang Seng			11,322		11,253			0.61%	11,287		0.31%		-25.00%
Когеан Кокрі			645		625			3.50%	611		5.61%		27.85%
Taiwan Weighted			4.519		4,450			1.55%	4,447		1.63%		4,74%
Pelick Wig			14,238		14,282			-0.30%	14,593		-2.43%		-20.22%
South African JSE Mexican Belia			5,693		9,291 5,685			40.12% 0.12%	9,146 5,712		1,47%		0.72%
Brazilias Beverpa			13,439		13,019			3.15%	12,883		4,24%		-11,49%
				er-omeno									
STATE	V 1 200000000000000000000000000000000000		9450700000 0.05		3.40		3.32				3.40		
vernight rate month bill		6	0.03		3,38	:	3.84	-5	3,48	-1	3,38	:	2.60
war bond			0.11	ï	1.53	-2	431	-1	3.34	-4	3.62	-2	3.46
year bend		5	0.47		4.14	-3	4.72	-3	4.17	-3	4.22	-3	4.79
sear bond		3	1.32		4.61	-3	4.70	-3	4.75	-3	4.93	-4	5.51
-year bood		1	2.59		5.15	-3	4.50	-1	5.24	-1	5.48	-4	5.72
	_												-

LS FIXED INCOME	Zanter Farefulle.	Myreer Family	Diverse swap spread	2-10 war UST spread	3-30 year UST sureaf	は漢
Current	0.00	5.59	64	184	221	
Bps change	unchanged	559	*	4	-т	

EMERGING FIXED INCOME	Kores '68	Thailand '11	Indonesia 96	Russia MinFin '07	Poland PD1
Current Bps change	5.94 0 <u>Aramtina Par</u>	5.25 2 Branks	11.08 unchanged Mexico-Far	12.97 unchanged Yenemeta DCB	1.02
Current	59.13	13.65	8.54	15.58	
Bys charge	-259	-11	-11	12	

					Currence	ies			
	Unit Change (In tere			- Perce	ent Change	(In Dollars	per Unit Te	erms) –	
	23-Nov	22-Nov	23-Nov	22-Nav	This week	This month	This year	In '80	In '99
Japon.	124,44	123,94	-0.4%	4.6%	-1.2%	-1.6%	-8.8%	41.9%	11.3%
Euro	0.8772	0.8782	-0.1%	0.056	-0.8%	-2.6%	-7.0%	-6.3%	-14.3%
EuroYen	109.14	108.84	0.3%	0.5%	0.4%	-1.0%	1.3%	4.4%	-22,3%
CK.	1.4097	1.4115	-0.1%	-0.4%	-0.2%	-3.1%	-5.6%	-7.7%	-2.5%
Germany	2.2296	2.2271	-0.1%	0.0%	-0.8%	-2.7%	-7.5%	-6.8%	-13.8%
Australia	0.5172	0.5173	0.0%	-0.9%	-1,05%	2.8%	-7.4%	-14.9%	-0.5%
Canada	1.5978	1.5996	0.8%	0.0%	-0.5%	-0.6%	-6.6%	-3.7%	-1.0%
Gold	272.90	272.85	0.0%	0.3%	-0.7%	-2.4%	0.2%	-5.5%	-0.4%
Thailand	44.15	44.35	0.5%	0.0%	0.8%	1.3%	-1.7%	-15.7%	-2.3%
Indonesia	10,495	10550	0.5%	-1.0%	1.3%	-0.2%	-8.5%	-38.5%	14.5%
Melaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.054
Philippines	52.00	51.95	-0.1%	0.1%	-0.1%	-0.1%	4,0%	-24.1%	-4.2%
South Korea	1,265	1278	1.0%	-0.2%	1.0%	2.0%	0.0%	-11.4%	6.0%
Taiwan	34.42	34.49	0.2%	-0.2%	0.1%	0.2%	-3.9%	-5.5%	2.7%
Singapore	1.8384	1.8415	0.2%	-0.3%	-0.2%	-0.8%	-6.1%	4,1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2,5115	2.5330	0.8%	0.4%	0.656	6.8%	-28.8%	-8.0%	-33.1%
Mexico	9.1500	9.1450	-0.196	0.2%	0.6%	1.5%	5.1%	-1.4%	4.1%
Chile	676.45	676.95	0.1%	0.3%	0.3%	5.2%	-17,9%	-8.3%	-10.7%
Colombia	2,312.75	2318,25	0.2%	-0.156	-0.1%	-0.2%	-3.4%	-19.3%	-17.3%
Venezuela	745.61	744,75	-0.1%	0.1%	-0.1%	-0.2%	-6.6%	-7.8%	-13.0%
Poland	4.1140	4.1015	-0.3%	-0.3%	-0.2%	-0.6%	0.4%	0.1%	-15.1%
Hungary	287.14	286.67	-0.2%	-0.7%	-0.9%	-1.3%	-2.3%	-11.0%	-14.5%
Czech	37.755	37,775	0.1%	0.2%	49,4%	-1.2%	-0.3%	-5.1%	-15,7%
Russia	29.945	29.960	0.1%	-0.1%	-0.4%	-9.8%	-4.9%	-3.6%	-25.2%
South Africa	9,9627	9.9741	0.1%	0.4%	-4,1%	-5,5%	-31.3%	-23.5%	-4.5%
Turkey	1,494,000	1,500,000	0.45%	0.0%	1.3%	6,3%	-122.9%	-23.6%	-41.9%
Grecoe	388.45	388.01	-0.1%	0.0%	-0.8%	-2.7%	-7.5%	-10.2%	-13.9%
			F	aulties (In	local cure	ency terms	1		

	Equities (In local currency terms) Percent Change Percent Change								
	23-Nov	22-Nav	23-Nov	22-Nav	This wh	This mo	This ye	In *80	/n '99
Dow	9917	9835	0.8%	0.0%	0.5%	9.3%	-8.1%	-6.2%	25.2%
Needay	1899	1875	1.39%	0.0%	0.0%	12,3%	-23.2%	-39.3%	85.6%
Nikkel	10697	10697	0.0%	0.3%	0.4%	3.2%	-22,4%	-27.2%	36.8%
FT-SE 160	5293	5346	-1.0%	0.6%	0.0%	5.0%	-14.9%	-10.2%	17.8%
DAX	5128	5125	0.1%	0.7%	1.3%	12.5%	-20.3%	-7.5%	39,1%
CAC-40	4574	4600	-0.6%	0.9%	-0.3%	5.4%	-22.8%	-0.5%	51.1%
Theiland.	297	293	1.2%	0.7%	7.7%	7.9%	10.2%	-44.1%	35,4%
Indonesia.	383	381	0.5%	-0.3%	1.1%	-0.3%	-8.1%	-38.5%	74,156
Malaysia	640	633	1.0%	0.0%	0.7%	6.6%	-5,9%	-16.3%	38.6%
Philippines	1.068	1067	2.0%	3.2%	5.3%	9.6%	-27,2%	-30.3%	8,8%
Hong Kong	11322	11253	0.6%	0.756	0.3%	12,4%	-25.6%	-11.0%	68.8%
South Kerea	645	625	3.3%	1.5%	5.6%	20,0%	27,9%	-50.9%	82.8%
Taiwan	4519	4450	1.6%	-1.8%	1.6%	15.8%	-4.7%	-43.9%	31.6%
Singapora	1458	1451	0.5%	-1.0%	2.5%	6.6%	-24,3%	-22,3%	78,9%
China	158	158.37	0.0%	0.5%	3,8%	1.3%	76.8%	136,2%	32.0%
Boazil*	13430	13019	3,1%	1.8%	4.2%	18,2%	-12.0%	-10.7%	151.9%
Argentina*	212	209	1.3%	1.7%	-3.7%	-5.9%	-49.2%	-24.3%	28.0%
Mexico*	5693	5685	0.1%	0.2%	-0.3%	2.8%	0.7%	-20.7%	80.1%
Chile	113	113	0.25%	0.3%	1.1%	9.5%	17.6%	-32.6%	41.8%
Colombia	925	925	0.05%	0.8%	7.6%	13.6%	29.7%	-28.6%	-9.3%
Venezuela	6316	6288	0.4%	-0.1%	-1.5%	-5.6%	-7.5%	26.0%	14,8%
Poland	14238	14282	-0.3%	0.3%	-2.4%	3.7%	-20.2%	-1.3%	41.3%
Hungary	7226	7140	1.2%	-0.3%	1.3%	6.7%	-7.9%	-11.0%	39.8%
Czech	409	408	0.2%	1.2%	1.8%	8.8%	-14.6%	-2.3%	24.2%
Russia	226	230	-1.7%	5.1%	6.1%	10.6%	57.5%	-18.2%	197.4%
South Africa	9280	9291	-0.1%	-0.6%	1.5%	8.6%	11.5%	-2.5%	57.3%
Turkey	11719	11856	-1.2%	2.1%	3.1%	19.0%	24.2%	-37.9%	485,4%
Greece	2675	2748	-2.7%	-0.6%	-3.2%	8.4%	-21.1%	-38.8%	102.2%

Equities begin trucing in Brazil, Aggertina, and Musico at \$100 a.m., 900 a.m., and 930 a.m. Eastern time respectively.

From: Cetina, Jill

Sent: Wednesday, November 21, 2001 12:22 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Noon Report -- Volumes thin as Thanksgiving looms

Better-than-expected U.S. data weighs on Treasuries and Euro-area debt.

Trading volumes light ahead of Thanksgiving; expected to be thin for rest of week.

U.S. Markets

U.S. equities were lower in active trading, pressured by concerns over future corporate profits and analyst downgrades of Microsoft (-2.4% to 63.81) and Erron (-33.5% to 4.65). The worst stock performers were software, computer, communication equipment, electrical equipment and entertainment issues. The NYSE will be closed tomorrow. On Friday, the NYSE will close early at 1 PM for the extended Thanksgiving holiday. (JSharer 2-2042)

Treasuries shrugged off reports of a new anthrax case in CT, focusing instead on today's data, which weighed anew on Treasuries. Most dealers continue to report market positioning and concern over year-end book closings as driving continued poor price action. Speculative and leveraged accounts as well as holders of MBSs continue to be active sellers and dealers note thin liquidity conditions exaccerbating price movements. Treasury prices are down 1/4 to 1/2 of a point. The curve continues to flatten. (JCetina 2-2017)

Global Markets

Fx: Dealers report volume as light over the week given the upcoming holidays in the U.S. and Japan with speculative accounts and position squaring responsible for the bulk of price action. Broad-based euro weakness continues to be a market focal point with today's move pushing the euro to a four-month low against the USD and some dealers talking about the possibility for substantial further weakness in the euro. Though firmer today, dollar/yen remains within recent ranges. (JCctina 2-2017)

Commodities: Our contacts cited holiday short covering and EIA's report of a crude stock draw as factors supporting oil prices in a thin market today, but also see their customers selling into rallies. Ahead they see further testing of the recent \$17/barrel low as prices remain vulnerable to short-selling pressures below the key \$20/barrel technical level and to the unlikely prospects of significant production cuts by Russia. (KByrne 2-2054)

Europe: German bund yields were up 1 to 11 bps in sympathetic response to a selloff in the Treasuries. Eurlier, bund yields had fallen on news of declines in the October German IFO survey. October French consumer consumption and September construction orders. Similarly, U.K. gilt yields were up 6 to 9 bps. Earlier, BOE meeting minutes of the November meeting revealed an 8-to-1 vote for a 50 bps easing. Market participants will focus on German 3Q GDP (seen at -0.2% q/q), U.K. 3Q GDP (seen at +0.5% q/q) and French October CPI (seen at +1.8% m/m). European stock markets closed mixed today, with the DAX and CAC 40 indexes falling 0.8%. (JSharer 2-2042)

LatAm: The Brazilian real is firmer today but little changed on the week, continuing to bounce off the 2.50 level. Some dealers look for the real to firm further after the Nov futures expiry next week, with some short reals accounts reportedly defending the 2.50 level. No change in the SELIC rate is expected from the COPOM tonight. Dealers note short covering supporting Argentine debt today as accounts locked in profits after a self-off earlier this week. Fin Sec Marx extended the period for local banks to participate in the swap to Nov. 30th. Contacts have noted communication of the terms of the swap to the market has been poor. Oct. Argentine industrial production fell 7.9% y/y. (ICetina 2-2017)

Today's Events:	Actual	Previous Perio	d Consensus	
U.S. initial jobless claims, week of Nov 17	427K	444K	454K.	
Univ. of Michigan consumer sentiment, Nov.	83.9	83.5	83.5	
BMA recommends early close to trading at 2 p.	m. EST			
Treasury statement, Oct	2 p.m.	-\$11.3 billion -5	III billion	
Brazilan COPOM announcement on rates today	after mark	et closes no change	in SELIC rate expe-	eted.

Closing Global Financial Markets

The state of the s

11/20/01 4:30 PM

- U.S. equities moved lower on poor earnings.
- -- Treasury prices were weaker on profit-taking and strong economic data.
- The dollar weakened against the major currencies in light dealings, retracing yesterday's gains.

U.S. Markets

U.S. equity markets closed with moderate losses in moderate trading, pressured by poor samings data (Decre) and weakness in the technology sector. The Nasdag index was off 2.8%. Enror plunged 22.6% to 7.01 after indicating that it may run out of cash before its takeover by Dynergy Inc. can be completed. Dynergy fell 4.4% to 41.70. The worst stock performers were semiconductor, communication equipment, entertainment, computer, talephone and software issues.

Treasury coupon prices were down 1/8 to a full point in moderate trading, mainly reflecting some profit-taking, rising oil prices and a 0.3% gain in the October leading indicators report. Treasury auctioned today \$23.0 billion 4-week T-bills to be issued November 23 and to raise \$15.0 billion new cash. The results were as follows:

Awarded rate: 2.000% Coverage ratio: 2.24 times

The Treasury cash market will close early at 2 PM tomorrow for the Thanksgiving Day holiday.

The December Federal funds futures contract was unchanged at 1.92%. The January and February contracts were both unchanged at 1.90% and 1.88%, respectively.

The January crude oil contract rose \$0.72 to \$19.15 a barrel on news that non-OPEC countries may agree to trim oil production by \$00,000 bpd. The December natural gas contract rose \$0.06 to \$2.85 per million blu.

Global Markets

The dollar depreciated 0.5% against the euro and was 0.6% weaker against the yen. News that the PBOC was increasing its euro foreign exchange reserves supported the single currency. The dollar was 0.7% weaker against both the British pound and Swiss franc.

Latin American equity markets closed weaker, with the Merval plunging 6.1% on concerns over the Argentine debt swap and weakness in the U.S. stock market. News that both the Argentine economic policy minister and the secretary for state reform had resigned also weighed on financial markets. The country's international reserves fell 1.5% to \$19.438 billion as of Nov. 16, a level held prior to the \$4 billion IMF September disbursement. The Argentina EMBI+ sub-index spread climbed above the 3,000 level, widening 36 bps to 3069 bps. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 900 and 5200, respectively. Brazil's real weakened 1.3% and the Bovespa fell 2.7%, in particle to worries over Argentina. Chile's peso depreciated 0.9% on concerns that Argentina's financial woes may choke investment in the ortire region.

The EMBI+ spread narrowed 13 bps to 1042 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also narrowed modestly, including Brazil (-3 to 925), Mexico (-15 to 342) and Turkey (-6 to 770).

Equities	4:29 PM	Change
DJIA	9,901	-0.73%
Nasdaq	1,881	-2.79%
S&P 500	1,143	-0.73%
Wilshire Tot Mkt	10,565	-4.79%
DIIA Vol.	152,895,200	
Canadian TSE	7,381	-0.56%
Mexican Bolsa.	5,699	-0.23%
Brazilian Bovespa	12,638	-2.69%
German Dax	5,096	-1.71%
French CAC-40	4,594	-1,44%
U.K. FTSE	5,299	-0.T4%
Nikkei-225	10,576	0.00%

U.S. Treasuries	4:29 PM	Change bus
1-month bill	1.98%	-2
3-mentik bill	1.95%	0
6-manii bill	2.00%	-1
2-year	2.94%	2
5-year	4.18%	4
10-year	4,87%	6
30-уеаг	5.31%	7

Money Markets	4:29 PM	Change bps
Oversight rate	1.94%	-6
December Fed		
Funds contract imp	1.90%	unchanged
yld		

USD versus		4:29 PM	Change
Japanese yen		122,52	-0.54%
Euro	S	0.8831	-0.51%
Sterling	5	1.4205	-0.67%
Swike franc		1.6486	4.66%
Canadian dollar		1.5946	0.4154
Mexican peso		9.155	0.05%
Brazilian yeal		2.55	1.25%

4:29 PM	Change
108,16	-0.10%
0.6217	-0.08%
	108,16

Commodities	4:29 PM	Change
Geld	\$273.05	50.30
Oil (Brzet)	518.82	52.28
Near-dated NYMEX		
contract	\$19.15	50.72

Tomorrow's Events: Time	Consensus Expectation	Previous Period
JPN Industry Oulput, Sept.	-0.6% m/m	-0.2% m/m
FRN Consumer Spending, Oct.	+0.1% m/m	+0.1% m/m
GER IFO Business Climate Index, Oct.	85.0	85.0
US Initial Jobiess Claims, wk ended Nov. 17 8:	30 AM +6,000	-8,000 to 444,000
US Univ. of Mich. Consumer Sentiment, Nov.	10 AM 83.5	83.5 prelim.

For Internal Use Only

Drafted by: Jim Sharer 11/20/01 4:59 PM

GLOBAL FINANCIAL MARKETS 11/20/01 4:15 PM

Year	Euro Sterling Swiss	150,000		19-Ner	28-Nov	Eriday's close	This work	Dis year
Earn 0.8839 0.8789 0.4475 0.3965 0.1855 0.4376 Sterling 1.4177 1.4127 0.4875 1.4171 0.5275 4.9275 Sterling 1.4177 1.4127 0.4875 1.4171 0.5275 4.9275 Canadian S 1.9951 1.5960 0.3255 1.5963 0.1095 6.4075 Australian S 0.53197 0.53217 0.5355 0.5212 0.5175 Earna won 1.274.0 1.179.0 0.0325 1.5940 0.5212 0.5175 Earna won 1.274.0 1.179.0 0.0305 1.798.0 0.5212 0.5175 Earna won 1.274.0 1.179.0 0.0305 1.798.0 0.5212 0.5175 Earna trajiah 1.8535 1.8573 0.4875 1.8155 0.1475 0.4875 Philippine pero 51.08 53.15 0.1475 0.1475 0.4875 Philippine pero 51.08 53.15 0.1475 0.1475 0.1475 Thai baht 41.00 44.09 4.1075 44.51 0.1475 0.1475 Thai baht 41.00 44.09 4.1075 44.51 0.1475 0.1475 Folish cluty 4.097 4.118 0.5075 4.008 0.0975 0.0075 Earna traile 2.484 23.24 0.0075 3.448 0.0075 0.0075 Earna traile 2.484 23.24 0.0075 3.448 0.0075 0.0075 Earna traile 2.484 2.345 0.0175 2.545 0.0075 0.0075 Earna traile 2.551 2.528 0.1175 2.105 0.0075 0.0075 Earna traile 2.551 2.528 0.0175 2.525 0.0075 0.0075 Earna Nama future 51.0432 516.55 13.775 516.05 1.4275 0.0075 0.0075 Earna Nama future 51.045 51.045 0.0175 0.0075 0.0075 0.0075 Earna Nama future 51.045 51.045 0.0175 0.0075	Euro Sterling Swiss		936570 Leon 9	的 一种种民族的人员	CAN MENT	of the program	Ceramon Commen	Local Complete Land
Sterling	Sterling Switza			123.21	-0.53%	122.94	-0.31%	-7.13%
Sterling	Swigs		0.8530	0.8789	-0.46%	0.8846	0.18%	
Canadian S 1.5951 1.5960 0.32% 1.5963 0.30% 4.40% Anteriorism S 0.5196 0.5217 0.36% 0.5225 0.5115 4.40% Anteriorism S 0.5196 0.5217 0.36% 0.5225 0.5115 4.57% Karan was 1.274.0 1.179.0 -0.08% 1.278.0 0.40% 1.40% 1.00%					-0.49%	1.4271	0.52%	4.92%
Australian S	Canadian S					F 199 F 199	-0.54%	-2.37%
Kervan wes 1274.0 1279.0 -0.08% 1278.0 -0.07% -1.07%	Annual Control of the							-6,40%
Indicassium repitals				The second secon				
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Thui bailt								
Taiwan S 34.48 34.45 9.60% 34.45 0.60% -1.62% Potish cloty 4.097 4.118 -0.50% 4.108 -0.26% 0.80% Restora ruble 29.34 29.34 0.60% 29.34 0.60% -4.54% South African rand 9.750 9.718 0.13% 9.566 1.92% -10.40% Mexican pene 9.160 9.150 0.11% 2.105 -0.60% 4.36% Brazillan real 2.558 2.528 0.51% 2.526 4.69% -10.52% COMMODITIES								
Politic sloty								
Resister rubble 29.84 29.84 0.00% 29.84 0.00% 4.54% South African rund 9.750 9.718 0.33% 9.566 1.92% -18.40% Mexican pose 9.140 9.150 0.11% 9.105 0.48% 4.54								
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COMMODINES 2.551 2.528 0.31% 2.526 4.99% -34.82%								
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Near Nymes factors						\$274.85	-0.55%	0.33%
CRB Index \$189.52 \$189.97 0.39% \$188.99 0.60% -10.82% Daw Jones 9.941 9.976 -0.75% 9.867 0.38% -2.21% Nasdag 1.881 1.924 -2.79% 1.899 -0.95% -2.38% S&P 500 1.143 1.151 -0.73% 1.139 0.35% -12.42% Nikkel 225 10.576 10.728 -1.42% 10.649 -0.69% -2.2.24% Japan Tapis 1.956 1.665 -0.88% 1.953 0.24% -12.72% German DAX 5.096 5.185 -1.71% 5.063 0.66% -3.07% French CAC-40 4.594 4.660 -1.44% 4.587 0.14% -22.24% U.K. #TSE-100 5.299 5.338 -0.74% 5.291 0.15% -14.85% U.K. #TSE-100 5.299 5.338 -0.74% 5.291 0.15% -14.85% U.K. #TSE-100 5.290 5.338 -0.74% 5.291 0.15% -14.85% U.K. #TSE-100 5.290 5.338 -0.74% 5.291 0.15% -25.64% U.K. #TSE-100 5.290 5.290 5.338 -0.74% 5.291 0.15% -25.64% U.K. #TSE-100 5.290 5.290 5.338 -0.74% 5.291 0.15% -25.64% U.K. #TSE-100 5.290 5								-10.65%
Daw Joses 9,941 9,976 -0,75% 9,867 0,35% -0,21% Nacional Superior 1,848 1,854 -2,79% 1,889 -0,55% -23,88% 58,87 560 1,140 1,151 -0,75% 1,119 0,35% -13,45% Nikkol 225 01,576 10,728 -1,42% 10,649 -1,65% -23,22% 3,000 Topin 1,056 1,065 -0,88% 1,853 0,24% -17,72% German D.X.X 5,076 5,185 -1,71% 5,043 0,66% -1,07% 1							5,93%	-28.73%
Daw Joses 9,981 9,976 -0.75% 9,867 0.35% -0.21% Nardiag 1,381 1,594 -0.75% 1,889 -0.95% -0.35% S&P 500 1,143 1,151 -0.75% 1,119 0.35% -12,45% Nikkel 225 10,576 10,728 -1.42% 10,649 -0.65% -23,25% Japan Tapia 1,256 1,645 -0.88% 1,853 0.24% -17,75% German DAX 5,696 5,185 -1,71% 5,663 0.66% -10,74% Breach CAC-49 4,594 4,669 -1,44% 4,587 0.14% -22,47% U.K. Fixse-100 5,299 5,333 -0,74% 5,291 0.15% -1,48% B.K. Hang Sang 11,226 11,360 -1,18% 11,287 -0.55% -25,63% Karvan Kaspi 616 626 -1,44% 6,11 0.39% 22,14% Paina Wig 14,565 14,665 -0.41% 4,447 6,21% 6,67% Paina Wig 14,565 14,665 -0.41% 1,493 4,19% -13,39% Paina Wig 14,565 14,665 -0.41% 1,493 4,19% -13,39%	CRB Index		\$189.52	\$188.97	0.29%	\$188,39	0.60%	-16.82%
Nasdag 1.381 1.574 1.79% 1.589 -0.55% -23.38% S&P 500 1.143 1.151 -0.75% 1.319 0.35% -13.45% S&P 500 1.143 1.151 -0.75% 1.319 0.35% -13.45% S&P 500 1.143 1.151 -0.75% 1.319 0.35% -13.45% S&P 500 1.145% 10.576 10.728 -1.42% 10.649 -0.66% -23.25% 10.576 1.05% 1.05% 1.05% 1.05% 1.05% 0.34% -17.75% German DAX 5.00% 5.30% 5.30% -1.71% 5.063 0.66% -10.74% French CAC-40 4.594 4.690 -1.44% 4.587 0.14% -22.45% 10.65% 1.24% 1.05% 1.	ALFRANC EQUITIES	100,460	Ciliado - Androdro - o	of the same of the same of the same	Statistical report	rando de Reigio	HENRY STATE	CONTRACTOR CONTRACTOR
S&P 500 1.143 1.151 4.75% 1.319 0.35% -13.45% Nikkol 225 10.576 10.728 -1.42% 10.649 4.69% -23.28% Japan Tapis 1.956 1.665 4.68% -8.88% 1.853 0.24% -17.75% German DAX 5.006 5.185 -1.71% 5.063 0.66% -30.72% French CAC-40 4.594 4.600 -1.44% 4.537 0.14% -22.28% U.K. FTSE-100 5.299 5.338 4.74% 5.291 0.15% -14.88% 0.14% 0.15% 11.22% 1			772					
Nikkel 225 10,576 10,728 -1,42% 10,449 -0,69% -23,24% 14,948 Topis 1,055 1,065 1,065 -0,88% 1,053 0,24% -17,72% German DAX 5,006 5,305 -1,71% 5,063 0,66% -10,72% U.K. FTSE-100 5,209 5,330 -0,74% 5,901 0,15% -14,85% U.K. Hang Song 11,226 11,300 -1,18% 11,287 0,55% -25,64% Karvan Kaspi 616 626 -1,40% 611 0,89% 22,14% Taiwan Weighted 4,456 4,559 0,44% 4,447 6,21% 6,00% -1,40% Patha Wig 14,565 14,665 -0,40% 14,503 6,19% -13,35% -13,35%	Nasdag				-2.79%			-23.84%
Japan Topis 1.056 1,665 1,665 1,88% 1,883 0,24% -17,72% German DAX 5,096 5,185 -1,71% 5,063 0,64% -20,74% Breach CAC-00 4,594 4,660 -1,44% 4,587 0,14% -22,47% U.K. FYSE-100 5,299 5,338 -6,74% 5,291 0,15% -14,48% H.K. Hang Sang 11,226 11,360 -1,18% 11,287 0,55% -25,64% Karvan Kaspi 616 626 -1,64% 611 0,89% 22,14% Taiwan Weighted 4,456 4,569 -1,84% 4,447 6,21% 6,67% Paina Wig 14,565 14,665 -0,40% 14,593 4,19% -1,33%	C 80 70 444							
German DAX 5,095 5,185 -1,71% 5,043 0,66% -10,74% Breach CAC-40 4,594 4,690 -1,44% 4,587 0,14% -22,49% U.K. FTSE-100 5,299 5,338 40,74% 5,291 0,15% -14,85% H.K. Hang Sang 11,226 11,360 -1,18% 11,287 0,55% -25,64% Korvan Kaspi 616 626 -1,84% 611 0,89% 22,14% Tainan Weighted 4,56 4,549 -0,44% 4,447 6,21% -6,07% Painh Wig 14,665 14,685 -0,44% 14,593 4,19% -13,35%								
Breach CAC-49 4.594 4.690 -1.44% 4.587 0.14% -22.49% U.K. FTSE-100 5.299 5.338 -0.74% 5.291 0.15% -14.89% H.K. Hang Sang 11,226 11,360 -1.18% 11,287 -0.55% -25.64% Karsun Kaspi 616 626 -1.61% 611 0.89% 22,14% Taiwan Weighted 4.456 4.549 -0.41% 4.407 6.21% -0.01% Patha Wig 14,665 14,665 -0.41% 14,593 4,19% -13,39%	Nikkei 225		10,576	10,728	+1.42%	10,649	-0.65%	-23.28%
U.K. FTSE-100 5,299 5,338 4,74% 5,291 0,15% -14,85% 18.K. Hang Sang 11,224 11,360 -1,16% 11,287 0,55% -25,64% Karuan Kaspi 616 626 -1,64% 611 0,89% 22,14% 17,40% Weighted 4,456 4,569 12,44% 4,447 0,21% 6,10% 14,95% 14,565 14,665 -0,44% 14,593 4,15% -13,35%	Nikkei 225 Japon Topis		1,056	10,728 1,665	+1.42% +0.88%	10,649	-0.65% 0.24%	-28.28% -17.73%
H.K. Hang Song 11,226 11,360 -1,18% 11,287 -0,55% -25,64% Korvan Kaspi 616 626 -1,64% 611 6,89% 22,14% Tainan Weighted 4,456 4,549 -0,64% 4,447 6,21% -6,07% Paties Wig 14,565 14,685 -0,61% 14,593 6,19% -18,39%	Nikkei 225 Japon Topis German DAX		10,576 1,056 5,076	10,728 1,065 5,185	-1.42% -0.88% -1.71%	10,649 1,053 5,063	-0.65% 0.24% 0.66%	-28.28% -17.72% -20.79%
Korvan Kaspi 616 626 -1.48% 618 6.89% 22,14% Tainan Weighted 4,456 4,549 -0.84% 4,447 6,21% -6,07% Painh Wig 14,665 14,685 -0.41% 14,593 4,19% -18,39%	Nikkei 225 Japan Tupia German DAX French CAC-49		10,576 1,056 5,096 4,594	10,728 1,065 5,185 4,660	-0.42% -0.88% -1.71% -1.44%	19,649 1,853 5,863 4,587	-0.65% 0.24% 0.66% 0.14%	-23.29% -17.72% -20.79% -22.49%
Tainan Weighted 4,456 4,549 (3,64% 4,447 6,21% 6,07%) Painh Wig 14,565 14,685 (3,64% 14,593 6,19% 18,39%	Nikkel 228 Japan Topis German DAX French CAC-40 U.K. FTSE-100		10,576 1,056 5,096 4,594 5,299	10,728 1,065 5,185 4,660 5,338	-0.42% -0.88% -0.71% -0.44% -0.74%	10,649 1,053 5,063 4,587 5,291	-0.65% 0.24% 0.66% 0.14% 0.15%	-23,29% -17,79% -40,79% -22,49% -)4,85%
Paints Wig 14,565 14,665 -0.41% 14,593 48,19% -18,39%	Nikkei 225 Japon Topis German DAX French CAC-40 U.K. FTSE-100 H.K. Hang Sang		10,576 1,056 5,076 4,594 5,299 11,226	10,728 1,645 5,185 4,660 5,338 11,360	-8.42% -8.88% -1.71% -1.44% -9.74% -1.18%	10,649 1,853 5,863 4,587 5,291 11,287	-0.65% 0.24% 0.66% 0.14% 0.15%	-28.28% -17.73% -20.78% -22.48% -14.88% -25.64%
1 1000	Nikkei 225 Japan Topis German DAX Brooch CAC-40 U.K. FTSE-100 H.K. Hang Song Korum Kospi		10,576 1,056 5,056 4,594 5,299 11,226 616	10,728 1,665 5,165 4,660 5,338 11,360 626	-0.42% -0.88% -0.71% -0.44% -0.74% -0.18% -0.18%	18,649 1,853 5,843 4,587 5,291 11,287 611	-0.65% 0.24% 0.66% 0.14% 0.15% -0.55% 0.85%	-28,28% -17,72% -20,78% -22,49% -14,85% -25,64% -22,14%
2000 AFRICA J. Sc. 9.324 9.324 8.00% 8.146 1.02% 11.02%	Nikkei 225 Japan Topis German DAX Brock CAC-40 U.K. FTSE-100 H.K. Hang Sang Karuan Kaspi Tainan Weighted		10,576 1,056 5,076 4,594 5,299 11,226 616 4,456	10,728 1,865 5,185 4,660 5,338 11,360 626 4,540	-0.42% -0.88% -0.71% -0.44% -0.18% -0.18% -0.44% -0.44%	19,649 1,853 5,863 4,587 5,291 11,287 611 4,447	-0.69% 0.24% 0.66% 0.14% 0.15% -0.55% 0.89% 0.21%	-28,28% -17,72% -10,79% -12,49% -14,85% -25,64% -22,14% -6,07%
70.7	Nikkei 225 Japan Topis German DAX Brock CAC-40 U.K. FTSE-100 H.K. Hang Sang Karuan Kaspi Tainan Weighted		10,576 1,056 5,076 4,594 5,299 11,226 616 4,456	10,728 1,865 5,185 4,660 5,338 11,360 626 4,540	-0.42% -0.88% -0.71% -0.44% -0.18% -0.18% -0.44% -0.44%	10,649 1,853 5,843 4,587 5,291 31,287 611 4,447 14,593	-0.69% 0.24% 0.66% 0.14% 0.15% -0.55% 0.89% 0.21% -0.15%	-28.28% -17.73% -40.78% -22.48% -14.85% -25.64% -22.14% -6.07% -8.35%
	Nikkei 225 Japan Topis German DAX Brunch CAC-40 U.K. FTSE-100 H.K. Hang Seng Koroun Kaspi Tainan Weighted Printh Wig South African JSE		10,576 1,056 5,096 4,594 5,199 11,226 616 4,456 14,565 9,324	10,728 1,865 5,185 4,660 5,338 11,360 625 4,549 14,685 9,324	-0.42% -0.88% -0.71% -0.44% -0.74% -0.18% -0.41% -0.41%	19,649 1,853 5,863 4,587 5,291 11,287 611 4,447	-0.69% 0.24% 0.66% 0.14% 0.15% -0.55% 0.89% 0.21%	-28,28% -17,72% -10,79% -12,49% -14,85% -25,64% -22,14% -6,07%
7,170 13434 11.483	Nikkei 228 Japan Tapis German DAX Brench CAC-40		10,576 1,056 5,096 4,594	10,728 1,065 5,185 4,660	-0.42% -0.88% -1.71% -1.44%	19,649 1,853 5,863 4,587	-0.65% 0.24% 0.66% 0.14%	-23.29% -17.72% -20.79%
	Nikkei 225 Japan Topis German DAX Branch CAC-40 U.K. FTNE-100 H.K. Hang Seng Koroun Kaspi Tainan Weighted Printh Wig South African JSE		10,576 1,056 5,096 4,594 5,199 11,226 616 4,456 14,565 9,324	10,728 1,865 5,185 4,660 5,338 11,360 625 4,549 14,685 9,324	-0.42% -0.88% -0.71% -0.44% -0.74% -0.46% -0.41% -0.41% -0.41%	10,649 1,853 5,863 4,587 5,291 11,287 611 4,447 14,447 14,593 9,146	-0.69% 0.24% 0.66% 0.14% 0.15% -0.95% 0.21% -0.15% 1.54%	-28,29% -17,77% -40,79% -22,49% -14,09% -25,64% -22,14% -6,07% -18,39% 11,08%

US FIXED PSCOME	1-year Farnie	Brear Faces	In-maraga sacad	2-10 year UST speed	3.30 sear UST agreed	施
Current	0.00	5.41	56	193	137	
Ups change	unchanged	9	-1	5	6	

EMERGING FIXED INCOME	Korea '88	Thiland'II	Indonesia '06	Russin MinFin 312	Poland PD1	
Carrent Bgs change	5.77 -6 Argentina Par	5.20 -15 <u>Brazil C</u>	11.08 unchanged <u>Mexico Par</u>	13.21 unchanged Yenerasia BCB	7.07	
Carrent	62.29	13.89	8.85	15.64		
Bps change	63	16	-6	-1		

					Currence	ies			
	Guit Change (In tern			Perce	ent Change	(In Dollars	per Unit Te	rms) –	
	20-Nev	19-Nov	20-Nov	19-Nov	This work	This mouth	This year	In 190	In '99
Japan	122,56	123.21	0.5%	-0.2%	0.3%	-0.1%	-7.1%	-11.9%	11.3%
Euro	0.8830	0.8789	0.5%	-0.6%	-0.2%	-2.0%	-6,4%	-6.3%	-14.3%
EuroYen	108,18	108.22	0.0%	-0.5%	-0.5%	-1.9%	0.4%	4.4%	-22,3%
UK	1.4197	1.4127	0.5%	-1.0%	-0.5%	-2.4%	-4.9%	-7.7%	-2.5%
Germany	2.2152	2.2255	0.5%	-0.6%	-0.2%	-2.0%	-6.8%	-6.8%	-13.8%
Australia	0.5198	0.5217	49,4%	-0.9%	-0.5%	3,4%	-7.0%	-14,9%	-0.5%
Carrada	1.5951	1.5900	-0.3%	0.0%	-0.3%	-0.4%	-6.4%	-3.7%	-1.0%
Gold	273.30	272.95	0.1%	0.3%	-0.6%	-2.2%	0.3%	-5.5%	-0.4%
Theiland	44.40	44.49	0.2%	0.05%	0.2%	0.7%	-2.3%	-15.7%	-2.3%
Indonesia.	10,535	10572.5	0.4%	0.654	0.9%	-0.6%	-8.9%	438.5%	14.5%
Malaysia.	3.80	3.80	0.0%	0.0%	0.0%	0.0%	9.0%	0.0%	0.0%
Philippines	52.08	52.15	0.1%	-0.4%	-0.2%	-0.2%	-4.2%	-24.1%	-4.2%
South Korea	1,278	1279	0.1%	-0.1%	0.0%	1.02%	-1.0%	-11.4%	6,0%
Taiwan	34.45	34.45	0.05%	0.0%	0.0%	0.1%	-4.0%	-5.5%	2.7%
Singapore	1.8355	1.8410	0.3%	-0.3%	0.05%	48,7%	-5.9%	-4.1%	-1.0%
China	8.28	8.28	0.05%	0.0%	0.0%	9,955	0.0%	0.0%	0.0%
Brazil.	2.5510	2.5280	-0.9%	-0.1%	-1.0%	5.4%	-30.8%	-8.0%	-33.1%
Mexico	9.1600	9.1500	-0.156	0.6%	0.5%	1.3%	5.0%	-1.4%	4.1%
Chile	680.85	674.75	-0.9%	0.5%	-0.4%	4.6%	-18.7%	-8.3%	-10.7%
Colombia	2,321.60	2312.20	-0.4%	-0.1%	-0.5%	-0.6%	-3.8%	-19,3%	-17,3%
Venczuela	744.75	744.50	0.0%	0.0%	0.0%	-0.1%	-6.5%	-7.8%	-13,0%
Poland	4.0970	4.1177	0.5%	-0.2%	0.3%	-0.2%	0.9%	0.1%	-15.1%
Hungary	283.31	284.65	0.5%	0.0%	0.5%	0.0%	-0.94%	-11.0%	-14.5%
Czech	37.574	37.671	0.3%	-0.2%	0.1%	-0.7%	0.1%	-5.1%	-15.7%
Russia	29.837	29.837	0.025	0.0%	0.0%	-0.4%	-4.5%	-3.6%	-25.2%
South Africa	9.7498	9.7176	-0.3%	0.4%	-1.9%	-3.2%	-28.5%	-23.5%	-4.5%
Turkey	1,464,000	1,464,000	0.055	3.3%	3.2%	8.2%	-118.4%	-23.6%	-41.9%
Greece	385.95	387.72	0.5%	-9.6%	-0.2%	-2.0%	-6.8%	-10.2%	-13.9%

			ı	Equities (In	local curr	ency terms)		
		range	- Appendict committees	Pe	reent Change				
	20-Nav	12-Nov	20-Nov	19-Nov	This wk	This mo	This ye	In '69	In '99
Dow	9901	9976	-0.8%	1.1%	0.3%	9.1%	-8.2%	-6.2%	25,2%
Newlog	1881	1934	-2.8%	1.9%	-1.0%	11.3%	-23.956	-39.3%	85.6%
Nikkel	10576	10728	-1,4%	0.7%	-0.7%	2.0%	-23.3%	-27.2%	36.8%
FT-SE 189	5299	5338	-9.7%	0.9%	0.1%	5.1%	-14.8%	-10.2%	17.8%
DAX	5096	5185	-1.7%	2.4%	0.7%	11,3%	-20.8%	-7.5%	39.1%
C4C-40	4594	4660	-1.4%	1.6%	0.1%	5,8%	-22.5%	4.5%	51.1%
Thailand	284	277	2.5%	0.5%	3,0%	3.2%	5.4%	-44.1%	35.4%
Indonesia.	382	383	-0.2%	1.1%	0.8%	-0.5%	-8.3%	-38.5%	70.1%
Malaysia	625	628	-0.4%	-1.1%	-1.6%	4.2%	-8.0%	-16.3%	38.6%
Philippines	1025	1042	-1.6%	0.8%	-0.8%	3.2%	-31,4%	-30.3%	8,8%
Hong Kong	11226	11360	-1.2%	0.6%	-0.5%	11.4%	-25.6%	-11.0%	68,8%
South Kerea	616	626	-1.6%	2.5%	0.9%	14.6%	22.1%	-50.9%	82.8%
Taiwan	4456	4549	-2.0%	2.3%	0.2%	14.1%	-6.1%	-43.9%	31.6%
Singapore	1447	1452	-0.4%	2.1%	1.7%	5.8%	-24.9%	-22.3%	78.0%
Chira	158	154.45	2.0%	1.2%	3.2%	0.8%	75.9%	136.2%	32.0%
Brazil*	12638	12987	-2.7%	0.8%	-1.9%	11.2%	-17.2%	-10.7%	151.9%
Argentina*	205	219	-6.1%	-0.7%	-6.7%	-8.8%	-50.8%	-24.3%	28.0%
Mexico*	5699	5699	0.09%	-0.2%	-0.2%	2.9%	0.8%	-20.7%	80.1%
Chile	1.13	114	-3.2%	1,8%	0.6%	9,0%	17.0%	-32.6%	41.8%
Colombia	896	889	0.7%	3.5%	4.3%	10.1%	25,7%	-28.6%	-9.3%
Venezuela	6306	6354	-0.8%	-0.9%	-1.6%	-5.7%	-7.6%	26.0%	14.8%
Poland	14565	14655	-0.6%	0.4%	-0.2%	6.0%	-18,4%	-1.3%	41.3%
Hungary	7138	7124	0.2%	-0.2%	0.0%	5.4%	-9.1%	-11.0%	39.8%
Czech	405	409	-0.9%	1.9%	1.0%	8,0%	-15,3%	-2.3%	24.2%
Russin	221	216	2.3%	1.6%	3.9%	8,3%	54,3%	-18.2%	197,4%
South Africa	9324	9324	0.0%	1.9%	1.9%	9.1%	12,0%	-2.5%	57.3%
Turkey	E1795	12263	-3.8%	7.8%	3.7%	19,8%	25,054	-37.9%	485,4%
Greece	2777	2797	-0.7%	1.2%	0.5%	12.5%	-18.0%	-38.8%	102.2%

^{*} Equition begin tracing in Brazil, Argentina, and Mexico at 800 a.m., 900 a.m., and 500 a.m. Eastern time respectively.

From:

Sharer, James

Sent:

Tuesday, November 20, 2001 5:06 PM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager.

Meg; Phillippa Malmgren; reidip; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 11/20/01

- -- U.S. equities moved lower on poor earnings.
- -- Treasury prices were weaker on profit-taking and strong economic data.
- -- The dollar weakened against the major currencies in light dealings, retracing yesterday's gains.

U.S. Markets

U.S. equity markets closed with moderate losses in moderate trading, pressured by poor earnings data (Deere) and weakness in the technology sector. The Nasdaq index was off 2.8%. Enron plunged 22.6% to 7.01 after indicating that it may run out of cash before its takeover by Dynergy Inc. can be completed. Dynergy fell 4.4% to 41.70. The worst stock performers were semiconductor, communication equipment, entertainment, computer, telephone and software issues.

Treasury coupon prices were down 1/8 to a full point in moderate trading, mainly reflecting some profit-taking, rising oil prices and a 0.3% gain in the October leading indicators report. Treasury auctioned today \$23.0 billion 4-week T-bills to be issued November 23 and to raise \$15.0 billion new cash. The results were as follows:

Awarded rate: 2.000% Coverage ratio: 2.24 times

The Treasury cash market will close early at 2 PM tomorrow for the Thanksgiving Day holiday.

The December Federal funds futures contract was unchanged at 1.92%. The January and February contracts were both unchanged at 1.90% and 1.88%, respectively.

The January crude oil contract rose \$0.72 to \$19.15 a barrel on news that non-OPEC countries may agree to trim oil production by 500,000 bpd. The December natural gas contract rose \$0.06 to \$2.85 per million btu.

Global Markets

The dollar depreciated 0.5% against the euro and was 0.6% weaker against the yen. News that the PBOC was increasing its euro foreign exchange reserves supported the single currency. The dollar was 0.7% weaker against both the British pound and Swiss franc.

Latin American equity markets closed weaker, with the Merval plunging 6.1% on concerns over the Argentine debt swap and weakness in the U.S. stock market. News that both the Argentine economic policy minister and the secretary for state reform had resigned also weighed on financial markets. The country's international reserves fell 1.5% to \$19.438 billion as of Nov. 16, a level held prior to the \$4 billion IMF September disbursement. The Argentina EMBI+ sub-index spread climbed above the 3,000 level, widening 36 bps to 3069 bps. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 900 and 5200, respectively. Brazil's real weakened 1.3% and the Bovespa fell 2.7%, in part due to worries over Argentina. Chile's peso depreciated 0.9% on concerns that Argentina's financial woes may choke investment in the entire region.

The EMBI+ spread narrowed 13 bps to 1042 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also narrowed modestly, including Brazil (-3 to 925), Mexico (-15 to 342) and Turkey (-6 to 770).

Tomorrow's Events: Time Consensus Expectation Previous Period JPN Industry Output, Sept. -0.6% m/m -0.2% m/m FRN Consumer Spending, Oct. +0.1% m/m +0.1% m/m GER IFO Business Climate Index. Oct. 85.0 85.0 US Initial Jobless Claims, wk ended Nov. 17 8:30 AM +6.000 -8.000 to 444.000 US Univ. of Mich. Consumer Sentiment, Nov. 10 AM 83.5 83.5 prelim.



Noon Global Financial Markets

- Stocks in the red; Treasury curve steeper; dollar softens further; oil prices higher.

U.S. trade data triggers downward revisions to Q3 GDP estimates.

U.S. Markets While the headline trade balance was better-than-expected due to Sept 11th insurance payments, the merchandise trade deficit was in larger-than-expected. This caused a number of banks to cut estimates of Q3 GDP growth to -1 to -1.5% versus the BEA's preliminary GDP estimate of -0.4% q/q (1st rev. due out next week). Leading indicators were better-than-expected, led higher by gains in stocks, low interest rates, money supply and consumer expectations. Treasuries largely strugged off the dam with the unwinding of rate-lock hedges associated with Fannie Mae's 2- and 10-year issuance having a higger impact on the market. Price action remains choppy with hedge unwinding being offset by investors lightening up on Treasuries to make room for the new Fannie issues. A Fed coupon pass in 03' to 08' sector initially helped support intermediate Treasury prices. Prices are, however, are unchanged to lower with the back-end underperforming as oil prices pare recent losses. (RCetina 2-2017)

Oil: Oil prices snapped their recent string of declines in reaction to comments from. Norwegian Oil Minister Steenances who said he saw a possibility for non-OPEC producers to cut production by the 500,000 bpd OPEC has asked. (JCctina 2-2017).

U.S. equities are lower in moderate trading, pressured by profit-taking and weak earnings reports. Deere and Enron moved lower on poor earnings data. The worst stock performers are semiconductor, entertainment, computer, retail and bank shares. (JSharer 2-2042)

Global Markets FX: While still range bound, the dollar remains softer, trading near the weaker end of its recent ranges against the euro and the yea. Chinese central bank confirmation of euro buying to raise the euro component of its \$200 billion plus in reserves contributed to some moderation in the recent very euro bearish tone of the market. Traders report relatively typical holiday trading volumes with much of the activity geared toward position squaring. (LQuint 2-9122)

European bourses closed 0.6% to 1.9% lower, with the DAX underperforming. Traders blamed downward revisions in the OECD's growth forecast for Europe. German bund yields were up 1 to 2 bps on some profit-taking and on rebounding crude oil prices. U.K. gilt yields were down 4 to up 3 bps. Short-dated issues outperformed as a report showing falling home prices raised speculation the BOE could still lower rates near-term. (JSharer 2-2042)

Turkey placed 1.5 quadrillion lira in 7-month T-bills at 74.5% today, showing better appetite for Turkish assets. Demand at the auction was strong, 2.2 quadrillion lira. (JCetina 2-2017)

Latam: Dealers report talk Spanish banks were large sellers of Argie bonds yesterday. Volunte in Argie bonds remain active and prices are moderately lower today. Contacts note Argentina's ability to service its debt through the end of this year looks very shaky even as the IMF prepares to send a mission to review the program for disbursement of an additional \$1.2 billion. Some contacts note Cavallo's comments yesterday Argentina would miss the zero deficit target triggered concern about Argentina's ability to service its debt. Human capital flight continues as Economy Socretary Sturnegget resigned today and was replaced by Cavallo advisor Mondino. Brazilian bonds and the real are modestly weaker. (JCetina 2-2017)

11/20	2.600.0	20.00	F F18 1
11023	2401	12:10	D PW

Equities	12:16 PM	Change
DULA	9,906	4,70%
Nesdaq	1,901	40.72%
S&P 500	1,145	43.37%
Wilshire Tel Mks	10,550	40.57%
DITA Vol.	92,884,700	
Canadian TSE	7,394	-0.09%
Métreus Boha.	5,699	-0.23%
Bruellian Boverge	12,786	-1.55%
German Dux	5,088	-1.87%
French CAC-40	4,594	-1.44%
U.K. FTSE	3,299	-0.74%
NA4si -225	10.576	41.42%

U.S. Treasuries	12:16 PM	Change tus
1-month billi	1.98%	-2
3-month bill.	1.95%	n
6-month bill.	1.99%	-2
2-year	2.92%	n
5-year	4.16%	1
10-year	4.82%	2
30-year	5.28%	1

Money Markets	12:16 PM	Change has
Oversight rate	2.00%	a nebu sged
January Fed Feeds centract implyicld	1.90%	ascharged

USD performance vs		12:16 PM	Change
Supramera you		122.64	-0.47%
Euro	5	0.8838	-(0,5)F ₁₀
Storling	5	1,4198	40.002%
Swiss frame		1.6472	-8.74%
Canadian dollar		1.5928	8,30%
Mexican peno		9.163	4.16%
Brazilius real		2.546	0.17%

Other cross rates	12:16 PM	Change
Barolyza	108.42	0.34%
Euro/starling	0.6222	0.00%

Cammodities	12:16 PM	Clarge
Geld	\$273.00	\$4.25
Oil (Breat)	\$18.90	50.36
Neur-dated NYMEX fasors contract	\$15.38	\$9.95

Today's Events:	
U.S. wade balance, S.	cpt.
Teday's Events: U.S. wade balance, S U.S. leading indicate	n, Oct.

	Act	iol.	
-5	18.7	þill	on
D.	3.95		

Previous Period -\$27.1 billion -0.5% Consensus Expectation -525.6 billion 0.0%

For Internal Use Only

Drafted by: JH Cetina 11/20/01 12:16 PM

Current

Ups change

62,80

114

11.89

27

8,95

6

15.68

2

GLOBAL FINANCIAL MARKETS 11/20/01 12:00 PM

		25	-New	19-Nov			20-Nev	Friday's ele	ise	This week		This year	
S PROFORMANCE	~0_58468g	-respective	柳 树 数45-50	CONTRACT	and the first	No other	Washington	dfillittings de	Option (1) New	year and	02	40,0000	
Yes			2.63	123.2	1		-0.47%	122.94		-0.25%		-7,19%	
Hure			8833	0.8781	9		-0.50%	0.8846	i	0.15%		-6.30%	
Sterling		17	4182	1.4123	7		-8.39%	1.4271		0.6356		-5.02%	
Swiss			549E	1.6601	t.		-4.66%	1,6582		-0.55%		-2.36%	
Canadian 5		1.5	5932	1,5900	ð.		0.20%	1,5903		0.18%		-6.28%	
Australian 5			\$194	0.5217	7		0.44%	0.5225		0.60%		-7.65%	
Kurran won		12	28.0	1279.6	0		-0.08%	1275.0		0.00%		-1.83%	
Endenesian rupiah		10	535	10577	j.		-0.35%	10636		-0.94%		-8.89%	
Philippine peno		57	1.08	52.15	5		-0.04%	51.95		0.24%		-6.15%	
Thai baht		44	.39	44.41			-0.24%	44.51		-0.2756		-2.27%	
Taiwan S		34	1.45	34,45	5		0.00%	34,45		0.00%		4.02%	
Polish gloty		4.	093	4,1.18			4.60%	4,105		-0.3516		9,70%	
Russian ruble			1.064	29.84			0.00%	29.54		0.00%		-4.54%	
South African rand			725	9,718			0.07%	9,566		1.66%			
Mexican pero			170	9.150			0.22%	9,205		4,37%	-	-28.13%	_
Bruzifian reid			546	2.528			0.70%	2.526		0.79%		4.89% -30.56%	
COMPARINTER													
Gold		- Allenda	1,25	\$272.95									
European Breat							0,11%	5274.85		-0.58%		0.31%	
Near Nymes fatares		\$18		\$16.55			11.78%	\$16.86		11.68%		-16,61%	
CRB Index		\$19		\$17.72			8.75%	\$18.45		6.88%		-28.10%	
		518	1,48	\$188.97			0.23%	\$186.59		0.54%		-86,87%	
EQUATIES .	35 66	- participation	received to		対象を持ち	GF4/E	966.5	g#fffffer o	outland	1865		olejiin o	
Dow Jones		9,9	65	9,976			-0.69%	9.867		0.4176		-8.15%	
Nantag		1.9	es .	1,934			-1.36%	1,899		0.51%		-22,76%	
SAP 500		1.0		1,151			0.45%	1,139		8,63%		-13.21%	
Nilskei 225		10.5		10,728			-1.42%	10.649		-0.69%			
Japan Topix		1,0		1,065			-0.88%	1.053		0.24%		-23.29%	
German DAX		5,0		5,185			-1.76%	5,063				-17,77%	
French CAC-40		4,9		4,661			-0.4455			0.61%		-20.83%	
U.K. FTSE-100		5.1		5,338			+0.7455	4,587		0.14%		-22.49%	
ILK, Hang Seng		11.2				_		5,291		0.15%		-04.85%	_
Korean Kospi				11,360			-8.1876	11,287		-0.55%		-25,64%	
Taiwan Weighted		61		626			-E-61%	611		0.89%		22,14%	
		4,4		4,549			-2,64%	4,447	_	0,21%		-6.47%	
Polish Wig		54,5		14,655			-0.61%	14,593		-0.19%		-18,39%	
South African JSE		9,3		9,324			0.00%	9,146		1.94%		11,9854	
Mexican Bolsa		5,6		5,699			0.00%	5,712		-0.23%		0.83%	
Britzilian Bevespa		12,8	26	12,567			-1.24%	12,883		-0.44%		-15,95%	
CLOS COLOTO DE LA COLOTO DELICA DE LA COLOTO DELA COLOTO DE LA COLOTO DEL COLOTO DE LA COLOTO DE LA COLOTO DE LA COLOTO DE LA COLOTO DE	Sheer	ROSE DATE	100.000	er agreemen	and a service	NOTE SEE		and the second	CONTRACTOR OF			DOTE: U	_
Overnight rate		6 0.0		1.25	4	3.75	-48	3.25	D COLUMN	1.25	- 0 THISTORY		
3-menth bill		-1 0.0		1.35	- à	3.84	4	3.26	3	3.35	.2	2.69	
2-year bond		-2 0.1		3.38	3	4.22	-1	3.29	1 1	3.52		2.24	
5-year bond		0 0.5		4.01	2	4.65	.2	4.05	; [1	3.30	
10-year bond		0 13		4.55	2	4,67	0	4.69	2	4.12	2	4.60	
30-year bond		1 24		5.09	i l	4,44	3	5.20	2		2	5.33	-
				3.09	,	4,44	,	5.20		5.46		5.63	_
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Cerrent	5.	75	5.20		13.08		13.10		7.00				
_	5.		5.20 -15		13.88 nehanged		13.10 unchanged						

					Currence	ies				
		Change (In Iteal currency towns) Percent Change (In Dollars per Unit Terms)								
	20-New	19-Nov	20-Nav	19-Nor	This room	This mouth	This year	In '80	In '99	
Japan	122.63	123.21	0.5%	-0.2%	0.3%	-0.1%	-7.2%	-11.9%	11.3%	
Euro	0.8833	0.8789	0.5%	-0.6%	-0.1%	-1.9%	-6.3%	-6.3%	-14.3%	
Euro Yen	108.30	108,22	0.1%	-0.5%	-0.4%	-1,8%	0.5%	4,4%	-22.3%	
UK.	1.4182	1.4127	0.4%	-1.40%	-0.6%	-2.5%	-5.0%	-7,7%	-2.5%	
Germany	2.2144	2,2255	0.5%	-0.6%	49.1%	-2.056	-6.7%	-6.8%	-13.8%	
Australia	0.5194	0.5217	-0.4%	-0.9%	-0.6%	3.3%	-7.1%	-14.9%	-0.5%	
Canado	1.5932	1.5900	-0.2%	0.0%	-0.2%	-0.3%	-6.3%	-3.7%	-1.0%	
Gold	273.25	272,95	0.1%	0.3%	-0.6%	-2.3%	0.3%	-5.5%	-0.4%	
Theiland	44.39	44.49	0.2%	0.0%	0.3%	0.7%	-2.3%	-15.7%	-2.3%	
Indonesia	10,535	10572.5	0.4%	0.6%	0.9%	-0.6%	-8.9%	-38.5%	14,5%	
Maloysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.056	
Philippines	52.08	52.15	0.1%	-0.4%	-0.2%	-9.2%	-4.2%	-24.1%	-4.2%	
South Korea	1,278	1279	0.1%	-0.1%	0.0%	1,425	-1.0%	-11.4%	6.0%	
Taiwut	34.45	34.45	0.0%	0.0%	0.0%	0.1%	-4.014	-5,5%	2.7%	
Singapore	1.8355	1.8410	0.3%	-0.3%	0.056	-0.7%	-5.9%	4.1%	-1.0%	
China	8.28	8.28	0.0%	0.0%	0.056	0.0%	0.0%	0.055	0.0%	
Brazil	2.5460	2,5280	-0.7%	-0.1%	-0.8%	5.6%	-30.6%	-8.0%	-33.1%	
Mexico	9.1700	9.1500	-0.2%	0.6%	0.4%	1.2%	4.9%	-1.4%	4.1%	
Chile	680.95	674.75	-0.9%	0.5%	-0.4%	4.6%	-18.7%	-8.3%	-10,7%	
Colombia	2,317.50	2312.20	4.2%	-0.1%	-0.3%	-0.4%	-3.6%	-19,3%	-17,3%	
Venezuela	745.01	744.50	4.1%	0.0%	0.0%	-0.1%	-6.5%	-7.8%	-13.0%	
Poland	4.0930	4.1177	0.6%	-0.2%	0.4%	-0.1%	1.4%	0.1%	-15.1%	
Hungary	283.18	284.65	0.5%	0.0%	0.5%	0.1%	-0.9%	-11,0%	-14.5%	
Czech	37.562	37.671	0.3%	-0.2%	0.1%	0.7%	0.2%	-5.1%	-15,7%	
Russia	29.837	29.837	0.0%	0.0%	0.05%	-0.4%	-4.5%	-3.6%	-25.2%	
South Africa	9.7249	9.7176	-0.1%	0.4%	-1.7%	-3.8%	-28.1%	-23.5%	-4.5%	
Turkey	1,464,000	1,464,000	0.0%	3.3%	3.2%	8.2%	-118.4%	-23.6%	-41.9%	
Greece	385.79	387.72	0.5%	-0.6%	-0.1%	-2.0%	-6.7%	-10.2%	-13.9%	
	Equities (In local currency terms)									

	Unit Change Percent Change											
	to the state of th											
	20-Nav	19-New	20-Nav	19-Nor	This wk	This mo	This yr	In '60	In '99			
Date	9948	9976	-0.7%	1.1%	0.4%	9.2%	-8.2%	-6.2%	25.2%			
Nasdeq	1988	1934	-1.4%	1.9%	0.5%	12,9%	-22.8%	-39.3%	85.6%			
Nikket	10576	10728	-1.4%	0.7%	-0.7%	2.0%	-23.3%	-27,2%	36.8%			
FT-SE 108	5299	5338	-0.756	0.9%	0.1%	5.1%	-14.8%	-10.2%	17.8%			
DAX	5094	5185	-1.8%	2,4%	0.65%	11.7%	-20.8%	-7.5%	39.1%			
C4C-49	4594	4660	-1.4%	1.6%	0.1%	5.8%	-22.5%	-0.5%	51.1%			
Thuiland	284	277	2.5%	0.5%	3.0%	3.2%	5.4%	-44.156	35.4%			
Indonesia	382	383	-0.2%	1.154	0.8%	-0.5%	-8.3%	-38.5%	70.1%			
Malaysia	625	628	-0.4%	-1.156	-1.6%	4.2%	-8.0%	-16.3%	38,6%			
Philippines	1925	1042	-1.6%	0.8%	-0.8%	3.2%	-31.4%	-30.3%	8.8%			
Hong Kong	11226	11360	-1.2%	0.6%	-0.5%	11.4%	-25.6%	-81.0%	68.8%			
South Korea	616	626	-1,46%	2.5%	0.9%	14.6%	22,1%	-50.9%	82.8%			
Taiwan	4456	4549	-2.0%	2.3%	0.2%	14.1%	-6.1%	-43.9%	31.6%			
Singapore	1447	1452	-0.4%	2.1%	1.7%	5.8%	-24.9%	-22.3%	78.0%			
China	158	154.45	2.054	1.2%	3.2%	0.8%	75.9%	136.2%	32.0%			
Brazil*	12826	12987	-1.2%	0.8%	-0.4%	12,9%	-15.9%	-10.7%	151.9%			
Argentina*	211	218	-3.2%	-0.7%	-3.9%	-6.1%	-49.3%	-24.3%	28.0%			
Mexico*	5699	5699	0.0%	-0.2%	-0.2%	2.9%	0.8%	-20.7%	80.1%			
Chile	113	114	-0.756	1.8%	1.1%	9.5%	17.5%	-32.6%	41.8%			
Colombia.	889	889	0.0%	3.5%	3.5%	9.2%	24.8%	-28.6%	-9.354			
Venezuela	6346	6354	-0.1%	-0.9%	-1.0%	-5.1%	-7.0%	26.0%	14.8%			
Poland	14565	14655	4.6%	0.4%	-0.2%	6.0%	-18.4%	-1.3%	41.3%			
Hungary	7138	7124	0.2%	-0.2%	0.0%	5.4%	-9.1%	-11.0%	39,8%			
Czech	465	409	-0.9%	1.9%	1,49%	8.0%	-15.3%	-2.3%	24.2%			
Russia.	221	216	2.3%	1,6%	3.9%	8,3%	54.3%	-18.2%	197.4%			
South Africa	9324	9324	0.0%	1.9%	1,9%	9.1%	12,0%	-2.5%	57.3%			
Turkey	11795	12263	-3.8%	7.8%	3.7%	19.8%	25.0%	-37.9%	485.4%			
Greece	2777	2797	-0.7%	1.2%	0.5%	12.5%	-18.1%	-38.8%	102.2%			

[&]quot; Equilies begin tracing in Brazil, Argentina, and Musico at 8:00 a.m., 9:00 a.m., and 9:30 a.m. Eaplain time respectively.

From:

Sharer, James

Sent:

Thursday, November 08, 2001 12:55 PM

To:

DL Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidip; Shevlin, Thomas; wallarig; wayneea

Subject:

Financial Markets Noon Report 11/8/01

- -- U.S. and European equity markets rallied on optimism for economic recovery
- -- Treasury prices move lower in moderate trading
- -- Dollar firms against European currencies, weaker vs. yen

U.S. equity markets moved higher in moderate trading on optimism that recent aggressive central bank rate cuts will revive global economies. The Nasdaq outperformed. Enron was off 4.9% to 8.60 as the firm restated earning and fired top officials. The best stock performers were software, entertainment, semiconductor and financial issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to 7/8 point in moderate trading. The price declines mainly reflected profit-taking. an unexpected 46,000 drop in weekly jobless claims, rising crude oil prices and concern over upcoming corporate supply. Traders shrugged off news of a 0.4% decline in the October non-fuel import price index. Tomorrow's session will be abbreviated for the Veteran's Day holiday. (JSharer 2-2042).

Commodities: Crude oil prices firmed (with knock-on effects in product markets) on cautious short-covering after Saudi and Kuwaiti officials' backed deeper cuts in oil production and as market sentiment continued to improve on yesterday's data showing strong U.S. demand for oil products in October. (KByrne, 2-2054)

Foreign Exchange: The euro held steady until after a 10 a.m. options expiry, then quickly fell through support levels of 89.20 against the dollar and the 108 against the yen. Participants report further deterioration in confidence in the ECB and growing bearish euro sentiment in light of yesterday's ECB members' mixed and misleading comments. Euro trading against all major currencies is reported to be heavy. (LQuinn 2-9122)

Europe: German bund yields were up 1 to 7 bps, on profit-taking and strength in the equities markets. However, U.K. gilt yields were down 1 to 17 bps. European stock bourses closed stronger with the central bank rate cuts. The DAX outperformed. (JSharer 2-2042)

Turkey's National 100 index was up 0.9% to 10,457 and the lira firmed 0.8% on growing hope for new international lending. The Turkish EMBI+ sub-index spread narrowed 12 bps to 855 bps. (JSharer 2-2042)

Latin America: Argentine bond prices have fallen today as the recent short covering rally shead of Argentina's local debt. swap has waned. Participants remain focused on the outcome of federal negotiations with opposition governors whose position seems to have hardened as well as the outcome of President de la Rua's trip to the U.S. Brazilian debt prices are modestly higher and the real is modestly firmer. (JCetina 2-2017)

EMBI+ spreads: The Argentine sub-index rose 61 bps to 2330 bps, while the Brazilian and Mexican sub-indexes narrowed 12 bps to 1060 bps and 8 bps to 393 bps. (JSharer 2-2042)

Today's Events:

Actual

Consenus Expectation

Previous Period -11,000 to 496,000

US Initial Jobless Claims, wk ended Nov. 3 US Non-fuel Import Price Index, Oct.

-46,000 to 450,000 -0.4%

+10,000 -0.2%

-0.1%



Noon Global Financial Markets

Treasury Market Analysis Unit 822-2650

5.278

10.432

1.18%

-- U.S. and European equity markets rallied on optimism for economic recovery

-- Treasury prices move lower in moderate trading

-- Dollar firms against European currencies, weaker vs. yen

U.S. equity markets moved higher in moderate trading on optimism that recent aggressive central bank rate cuts will revive global economies. The Nasdaq outperformed. Enron was off 4.9% to 8.60 as the firm restated earning and fixed top officials. The best stock performers were software, entertainment, semiconductor and financial issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to 7/8 point in moderate trading. The price declines mainly reflected profit-taking, an unexpected 46,000 drop in weekly jobless claims, rising crude oil prices and concern over upcoming corporate supply. Traders strugged off news of a 0.4% decline in the October non-fael import price index. Tomorrow's session will be abbreviated for the Veteran's Day holiday. (JSharer 2-2042)

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Equities	12:15 PM	Charge
DITA	9,674	1.26%
Noideq	1,873	1.92%
S&P 500	1,121	1,32%
Wilshire Toy Mkr	10,379	1.23%
DILA Vat.	43,376,700	
Canadian TSE	7,203	0.78%
Mexican Boha	5,658	0.3659
Brugitian Bovergu	12,561	-0.43%
German Dax	4,958	1,99%
French CAC-48	4,573	1.78%

UK PTSE

kkd -325

U.S. Transuries	12:15 PM	Change has
I-month bill	1.89%	0
3-month bill	1.8314	
6-morth hill	1.78%	
2-year	2.58%	7
5-year	3.56%	8
10-year	4.26%	1
0-year	4.85%	6

Money Markets	12:15 PM	Change bus
Overnight rata	2.00%	anthorged
Dec. Fod Funds contract imp yield	1.82%	2

USD performance vs.		12:15 PM	Change
Japanese yen		139.95	-0.91%
Eart	S	0.8914	0.71%
Scotling	8	1.4533	0.72%
Swine Oans		1.6435	0.5274
Casadine dollar		1.5981	45,64%
Мехісия реко		9.213	0.65%
Brazilian real		2.557	0.69%

12:15 PM	Charge
106.93	-1.57%
0.6131	0.02%
	106.93

Commodities	12:15 PM	Change
Gold	\$276.90	453.60
Oil (Brent)	\$19.52	\$0.67
Neur-dated NYMEX fatures contract	\$20.63	\$0.54

Today's Events:		
US Initial Jobless Claims,	wk ended Nov.	į
1977 Allery Royal Street and Philosophia	to do the same	

Actual	Consenus Expectation
-46,000 to 450,00	
-0.4%	-0.2%

-11,000 to 496,000

For Internal Use Only

Drafted by: Jim Sharer 11/8/01 12:51 PM

Bps change

GLOBAL FINANCIAL MARKETS 11/8/01 12:00 PM

SPERFORMANCE		THE REAL PROPERTY.	1-No	Y.	2-Nev		-	8-Nov	Fridas's of	lese	This week		This year	;
Yen			119.9	_	accustus.		all peliting	September 1	dayban na	solar boda	1000	474	distribution of	
Euro			0.991		121.01			-4.88%	121.7		-1,48%		-4.84%	
Sterling			1.454		0.8977			6.74%	0.903		1,33%		-5,46%	
Swiss			1,645		1,4043			0.65%	1,462		0.56%		-2.57%	
Canadian S			1.59%		1,5980			0.56%	1.629		0.9454		-2,12%	
Australian S			0.514		0.5158			0.00%	1,591 0,508		0.44%		-6.61%	
Korean wan			1280.		1295.0			-1.16%	1291		-1.17%		-7.87%	
Indepedan rupiak			18479		10638			4.57%	1067		-0.85% -1.92%		-1.19%	
Philippine pese			51.78		51.95			-0.34%	51.9		-0.34%		-8.22%	
Thai bahs			44.48		44,66			-0.39%	44.7		-0.55%		-3.55%; -2.49%;	
Taiwan S			34.45		34,44			0.03%	34.5		-0.2376		4.02%	
Polish staty			4.064		4.076			-031%	4.12		-1,37%		1,67%	-
Russian ruble			29.71		39,75			-0.12%	29.7		-0.14%		-4.10%	
South African rand			9.546		9.543			0.03%	9,52		0.19%		-25,77%	
Mexican pesa			9,215		9.216			-0.6159	9,27		-4.63%		4.42%	
Beazilian reill			2.555		2.558			-0.12%	2,67	2	-4.38%		-31.03%	
COMMODITIES		57.50	the plant	-Star - V	Service .	r leyla-di	t ve rodeck	the wedge con	a data area.				6 July 1645	
Gald			5276.99	5	5280,75			+1.35%	\$279.95		-1.07%		1.67%	
European Brent			\$19.54		\$18.86			3.61%	\$18.63		4.88%		-13.40%	
Near Nymex fatures			\$20.93		\$20.11			4.08%	\$20,18		3.72%		-28.90%	
CRB Index			\$187.14	•	\$186.02			0.60%	\$185,65		0.80%		-17.86%	
WEIFE EQUITIES	-4470	100.00	100	drys V	(20cm) #850	May i	di Les	ANNEX.	(estable)	(40 th 19)	Bergaran J.	117	4.55-9469 AC	ă,
Day Jones			9,692		9.554			1.44%	9,324		3,95%		-10.15%	
Nasdaq			1,881		1,836			2,34%	1,746		7,73%		-23,88%	
S&P 500			1,133		1,116			1.51%	1,087		4.19%		-14.21%	
Nikkei 225			10,432		10,285			1,43%	14,384		0.46%		-24,53%	
Japan Topix			1,046		1,409			0.76%	1,054		-0.6954		+18.48%	
German DAX			4,915		4,861			2.3514	4,583		8.54%		-22.67%	
French CAC-40			4,573		4,493			1,7854	4,369		4.66%		-22.84%	
C.K. FTSE-100			5,275		5,216			1.18%	5,130		2.90%		-15.18%	
H.K. Hang Song			18,539		10,270			2.62%	10,186		3.46%		-39.19%	
Karean Kaspi			573		562			1.96%	551		4,8816		13.56%	
Taiwan Weighted	-		4,135		4,158			-0.56%	3,998		3,4259		-12,64%	
Pulish Wig South African JSE			13,823		13,540			2.09%	13,640		1.34%		-22,55%	
Menican Bolan			5,676		8,656			0.01%	8,708		-0.13%		4,45%	_
Brazilian Boscapa			13,517		5,638 12,616			0.33% -0.23%	5,633 11,388		0.42% 10.55%		0.08% 47,5154	
(CD) MINE OF PARTY		Tomas		The same of the sa	PARTITION OF THE PARTIT	- Marie								
Oversight rate	2.04	3	0.05	0	920)132(10)9 3.88	ill Harring	3.69	4	3.88	o O	3.88	e entitel?	2.72	
3-month bill	1.83	3	10.0		3.32	-5	3.82	-17	3.39	0	3.32	-3	2.17	
2-year bood	2.39		0.11	-1	3.02	6	3.99	-5	3.01	4	3.15	4	2.66	
5-year head	3.56	1	0.45	i	3.66	7	4,38	0	3,70	7	3.77	6	3.99	
10-year bond	4.27		1.30	3	4.31	4	4.41	1	4.45	4	4.65	3	4.86	
30-year bood	4.85	6	2.42	4	4.50	1	4.20	-1	4.98	4	5.28	ī	5.30	
EN FIXED INCOME		neur Fe	o probe	10-year F	midd			57 Signa ()	entition in	19-0.46	#95 1		alcum.	
Current	-	0.00	all draw	4.73	211.12		56	Switch Statement	2.10 v	187	eres.	246	EST spread	
	-	-												
Bps charge	444	hunged								•				
														_
RGING FIXED INCOME	K	area 108		Theiland	-11 E	ndecesia	176	Russia MinFr	n 107	Peland Fil	1			
	K				-11 E		-156		n 107		1			
RGING FIXED INCOME Current Bys charge	K	orea 108 534 -4		Theiland 4.95		ndenesia 11.08 uchanges		Hussin MinFi 13.26 anchanged	n 102	7.02 -5	1			

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Mesko Par

Argentina Par

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469

Brazil C

14.74

-5

13.60

23

Venezuela DCB

	Uwit Change (b	n local currency			Currenci				
	ter	ms)		- Perc	ent Change	(In Dollars	per Unit T	erms) -	
	8-Nov	2-Nov	8-Nev	7-Nav	This week	This mouth	Dick year	In 198	Ln '99
Japan	119.94	121.01	0,95%	0.1%	1.5%	2.0%	-4.8%	-11.9%	11.3%
Euro	0.8911	0.8977	-0.7%	0.4%	-1.3%	-1.1%	-5,5%	-6.3%	-14,3%
EuroYen	106.92	108.62	-1.6%	0.2%	-2.7%	-3.0%	-0.7%	4.4%	-22,3%
Lik.	1,4548	1,4643	-0.6%	0.5%	-0.6%	0.0%	-2.6%	-7.7%	-2.5%
Germany	2.1945	2.1788	-0.7%	0.3%	-1.3%	-1.1%	-5.8%	-6.8%	-13.8%
Australia	0.5148	0.5155	-0.1%	0.9%	1.2%	2.3%	-7.9%	-14.9%	-0.5%
Canada	1.5982	1.5980	0.0%	0.0%	-0.4%	-0.6%	-6.6%	-3.7%	-1.0%
Gold	276.95	280.75	-1.4%	0.3%	-1.1%	-0.9%	1.7%	-5.5%	-0.4%
Thailand	44.48	44.655	0.4%	0.0%	9.5%	0.5%	-2.5%	-15.7%	-2.3%
Indonesia	10,470	10637.5	1.6%	1.9%	1.9%	0.0%	-8.2%	-38.5%	14.5%
Malaysia.	3.80	3.80	0.055	0.0%	0.0%	0.0%	0.0%	0.056	0.0%
Philippines	51.78	51.95	0.3%	0.0%	0.3%	0.3%	-3.6%	-24.1%	4.2%
South Korea	1,280	1295	1.2%	-0.4%	0.956	0.9%	-1.2%	-11.4%	6.0%
Taiwan	34.45	34.44	0.0%	0.2%	0.1%	0.1%	-4.0%	-5.5%	2.7%
Singapore	1.8174	1.8125	-0.3%	0.3%	0.4%	0.3%	-4.8%	-4.12%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%
Brazil	2.5550	2.5580	0.1%	2.0%	4,4%	5.2%	-31.0%	-8.0%	-33.1%
Mexico	9.2145	9.2155	0.0%	-0.1%	0.6%	0.8%	4.4%	-1.4%	4.1%
Chile	697.65	701.00	0.5%	0.6%	2,3%	2.2%	-21.6%	-8.3%	-10.7%
Colombia	2,304.70	2307.50	0.1%	0.1%	0.3%	0.2%	-3.1%	-19.3%	-17.3%
Venezuela	743.91	743.50	-0.1%	0.0%	48.1%	0.0%	-6.3%	-7.8%	-13.0%
Poland	4.0635	4.0760	0.3%	0.4%	1.4%	0.6%	1.7%	0.1%	-15.1%
Hungary	281.19	279.90	-0.5%	0.4%	0.4%	0.8%	-0.2%	-11.0%	-14.5%
Czech	37.463	37.243	-0.6%	0.4%	-0.9%	-0.4%	0,4%	-5.1%	-15.7%
Russia	29,713	29.747	0.1%	-0.1%	0.1%	0.0%	-4.1%	-3.6%	-25.2%
South Africa	9.5457	9.5428	0.0%	0.4%	-0.2%	-1.1%	-25.8%	-23.5%	4.5%
Turkey	1,545,000	1,557,500	4.8%	-0.8%	1.6%	3.1%	-130.5%	-23.6%	-41.9%
Greece	382.33	379.61	-4.7%	0.3%	-1.3%	-1.1%	-5.8%	-10.2%	-13,9%
	Unit CI	hanze	E	quities (In	<i>local curr</i> e reent Change				
	8-Nav	Z-New	8-Nav	7-New	This wk	This me	This are	In '00	In '99
Door	9692	9554	1.4%	-0.4%	4.0%	6.8%	-10.2%	-6.2%	25.2%
Nandag	1881	1838	2.3%	0.1%	7.7%	11.3%	-23,9%	-39,3%	85.6%
Nikkel	10432	10285	1.4%	-3.3%	0.5%	0.6%	-24.3%	-27,2%	36.8%
FT-SE 100	5278	5216	1.2%	0.0%	2.9%	4.7%	-15.2%	-10.2%	17.8%
DAX	4975	4861	2.3%	3.3%	8.5%	9.1%	-22.7%	-7.5%	39.1%
C4C-49	4573	4493	1.8%	0.7%	4.7%	5.3%	-22.8%	-0.5%	51.1%
Thailand	268	265	1.2%	-2.3%	-2,1%	-2.5%	-0.3%	-44.1%	35.4%
Indonesia	382	378	1,1%	0.6%	0.3%	-0.5%	-8.3%	-38.5%	70.1%
Malaysia	599	592	1.1%	-0.1%	0.3%	-0.2%	-11.9%	-16.3%	38.6%
Philippines	996	989	0.7%	0.0%	0.3%	0.3%	-33,4%	-30.3%	8.8%
Hong Kong	10539	10270	2.6%	-0.8%	3.5%	4.6%	-30.2%	-11.0%	68.8%
South Kurea	573	562	2.0%	-0.6%	4.1%	6.6%	13.6%	-50,9%	82.8%
Taiwan	4135	4158	-0.6%	1,8%	3.4%	5.9%	-12.8%	-43.9%	31.6%
Singapore	1333	1329	0.3%	-0.5%	-0.6%	-2.6%	-30.8%	-22.3%	78,0%
China	154	152.36	0.9%	-2.8%	-1.5%	-1.7%	71.6%	136.2%	32.0%
Brazil*	12587	12616	-0.2%	1.6%	10.5%	10.8%	-17.5%	-10.7%	151.9%
Acception?	227	222	0.195	2.78/	8.886	E 200	47 194	2012/01/2017	20.00

Argentina*

Mexico*

Colombia

Venezuela

Poland

Czech

Russia

Turkey

Greece

South Africa

Hungary

Chile

237

5657

109

778

6444

13823

6938

391

219

8696

10457

237

5638

107

778

6438

13540

6883

387

207

8696

10363

2633

0.194

0.3%

1.8%

0.054

0.1%

2.1%

0.8%

1.2%

5.6%

0.0%

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-0.756

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-5,6%

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52.8%

4.4%

10.8%

-22.2%

-24.3%

-20.7%

-32.6%

-28.6%

26.0%

-1.3%

-11.05%

-2.356

-18.2%

-2.5%

-37.9%

-38.8%

28.0%

80.1%

41.8%

-9.3%

14.8%

41.3%

39.8%

24.2%

197.4%

57.3%

485,4%

102.2%

^{*} Equities begin trading in Brazil, Agentina, and Maxico at 8:00 a.m., PCD a.m., and 2:30 a.m. Eastern time respectively.

From:

Subject:

Byrne, Kathleen

Sent:

Tuesday, November 06, 2001 4:33 PM

To:

DL Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-

Financial Markets Closing Report, Nov. 6, 2001 - Fed Cuts Rates, U.S. Equities & Treasuries.

mail): J.P. Reid: Jay Hoffman: Meg Lundsager: Philippa Malmgren; T.J. Sheylin

rally

- -- The Federal Reserve cut the Federal Funds target rate and the discount rate by 50 basis points to 2.0% and 1.5%. respectively.
- -- U.S. equity markets retraced to close moderately firmer and the Treasury coupon curve steepened.

FOMC Statement: In its accompanying statement, the Fed maintained the bias to ease, noting that for the foreseeable future, "the risks are weighted mainly toward conditions that may generate economic weakness." Market participants noted the lack of mention of specific reasons for rate cuts and the fact that the real Fed Funds rate is now negative for the first time since 1993 (using core CPI in the calculation).

- U.S. Equities: Major U.S. markets abandonned the profit-taking mode that had weighed prior to the Fed's decision, and rallied in relief that a full 50 bps of easing had been announced. Intel and Cisco shares led the surge on the Nasdag. which closed at a fresh two-month high and above the 1800 mark for the first time since August 31. Dealers noted the sharp decline in Enron's shares, however, on reports the company seeks to raise \$2 billion.
- U.S. Treasuries: Prior to the announcement, the coupon curve was 4 bps flatter on the day; at market's close, the curve was 10 basis points steeper as Treasuries rallied across all tenors save the long bond. The 3-month bill outperformed, as those participants who had put on short positions in anticipation of curve flattening (on a smaller cut) bought aggressively at the front end after the announcement.

Foreign Exchange: Dealers noted muted reaction to the FOMC's decision, as well as low levels of liquidity and volatility in the market. The dollar firmed temporarily in the aftermath of the Fed's decision before retracing, to close modestly weaker against most major currencies. Dealers predict renewed weakness in the euro vis-a-vis the dollar, however, absent decisive action by the ECB to ease monetary policy near-term.

Interest Rate Futures: The implied yield on the December Fed funds futures contract declining dramatically in the wake of the FOMC's decision, and is fully pricing in 25 bps of easing at the Committee's December 11th meeting as well as a very small chance of easing beyond that amount. Participants noted that the Fed's decision to ease by 50 bps today (rather than the 25 bos many had expected) may well put additional pressure on the ECB to ease. Implied yields on euribor futures contracts fell modestly today in reaction to ECB President Duisenberg's dovish commentary.

Commodities: Ahead of the API inventory report, oil prices were unchanged to modestly lower on perceptions of OPEC's inability garner cooperation for a production cut among non-OPEC producers. Today's EIA report showed a cut in its estimate of U.S. oil demand by 10,000 bpd for the Q4 2001, but an increase in its estimate for Q1 2002 of 30,000 bps.

Argentina: After downgrading Argentina's sovereign ratings from CC to C earlier today, Fitch also cut the country's World Bank guaranteed series E and F zero coupon notes from BB- to B+, citing the government's upcoming "distressed" local debt exchange. Moody's observed today that "the swap as described certainly has the characteristics that would represent default* but did not take immediate action to downgrade the country's rating. Our contacts explained the rises in prices of Argentine debt today as reflective of very light volumes and moves by some participants to cover short positions on dips.

Tomorrow's Events:	Time	Actual	Consensus Expectation	Previous
Period				
Bank of England's MPC begins fi	rst of two-day meet	ing.		
EUR Business Climate Indicator,	Oct.		-0.80	-0.57
EUR Retail Sales Volumes, Aug.			+0.1% m/m	+0.3% m/m
GER Manufacturing Orders, Sep.			-1.5% m/m	+1.4% m/m
US Non-farm Business Productiv	ity, 3Q 8:30 AM	1	+2.0% q/q	+2.1% q/q
US Wholesales Inventories, Sept			-0.3% m/m	-0.1% m/m



Closing Global Financial Markets

November 5, 20010

Transvery Market An

Urn, 622-2650

 The Federal Reserve out the Federal Funds target rate and the discount rate by 50 basis points to 2.0% and 1.5%, respectively. 1/6/01 4:19 PM

 U.S. equity markets retraced to close moderately firmer and the Treasury coupon curve steepened.

FOMC Statement: In its accompanying statement, the Fed maintained the bias to ease, noting that for the foreseeable future, "the risks are weighted mainly toward conditions that may generate economic weakness." Market participants noted the tack of mention of specific reasons for rate cuts and the fact that the real Fed Funds rate is now negative for the first time since 1993 (using core CPI in the calculation).

U.S. Equities: Major U.S. markets abandonned the profit-taking mode that had weighed prior to the Fed's decision, and rallied in relief that a full 50 bps of easing had been announced. Intel and Cisco shares led the surge on the Nasdaq, which closed at a fresh two-morth high and above the 1800 mark for the first time since August 31. Dealers noted the sharp decline in Enron's shares, however, on reports the company seeks to raise \$2.5 billion.

U.S. Treasuries: Prior to the announcement, the coupon curve was 4 bps flatter on the day; at market's close, the curve was 10 basis points steeper as Treasuries raffied across at tenors save the long bond. The 3-month bill outperformed, as those participants who had put on short positions in anticipation of curve flattening (on a smaller cut) bought aggressively at the front end after the announcement.

Foreign Exchange: Dealers noted muted reaction to the FOMC's decision, as well as low levels of liquidity and volatility in the market. The dollar firmed temporarily in the aftermath of the Fed's decision before retracing, to close modestly weaker against most major currencies. Dealers preciot renewed weakness in the euro vis-a-vis the dollar, however, absent decisive action by the ECB to ease monetary policy near-term.

Interest Rate Futures: The implied yield on the December Fed funds futures contract declining dramatically in the wake of the FOMC's decision, and is fully pricing in 25 bps of easing at the Committee's December 11th meeting as well as a very small chance of easing beyond that amount. Participants noted that the Fed's decision to ease by 50 bps today (rather than the 25 bps many had expected) may well put additional pressure on the ECB to ease. Implied yields on euribor futures contracts fell modestly today in reaction to ECB President Duisenberg's dovish commentary.

Commodities: Ahead of the API inventory report, oil prices were unchanged to modestly lower on perceptions of OPEC's inability garner cooperation for a production out among non-OPEC producers. Today's EIA report showed a cut in its estimate of U.S. oil demand by 10,000 bpd for the Q4 2001, but an increase in its estimate for Q1 2002 of 30,000 bos.

Argentina: After downgrading Argentina's sovereign ratings from CC to C earlier today, Filch also cut the country's World Bank guaranteed series E and F zero coupon notes from BB- to B+, citing the government's upcoming "distressed" local debt exchange, Moody's observed today that "the swap as described certainly has the characteristics that would represent default" but did not take immediate action to downgrade the country's rating. Our contacts explained the rises in prices of Argentine debt today as reflective of very light volumes and moves by some participants to cover short positions on dips.

Equities	4:19 PM	Change
DHA	9,391	1.59%
Nasdaq	1,835	2.31%
S&P 500	1,119	1.45%
Wilshire Tot Mkt	10,304	1.45%
DJIA Vol.	257,914,000	
Canadian TSE	7,146	0.93%
Mexican Bolsa	5,478	-0.06%
Brazilian Bovespa	12,416	2.06%
German Dan	4,708	-1.00%
French CAC-40	4,462	-0.23%
U.K. FTSE	5,214	0.10%
Nikkei-225	10,634	0.60%
Nikkei-225	10,634	0.60%

U.S. Treasuries	4:19 PM	Change bus
1-month bill.	1.95%	-10
3-month bill	1.87%	-85
6-month bill	1.83%	-14
2-year	2,42%	-1
5-year	3.50%	-6
10-year	4.27%	-4
30-year	4.85%	a

4:19 PM	Change bps
2.13%	unchanged
1.81%	-11
	2.13%

USD versus		4:19 PM	Change
Japanese yen		121,14	-0.40%
Euro	5	0.8950	0.28%
Sterling	5	1.4571	0.08%
Swiss franc		1.6449	0.34%
Canadian dellar		1.5922	-0.04%
Mexican paso		9.203	-0.08%
Brazilian real		2.607	1.00%

beauto Jess	100,72	40.10.0
Euro/sterling	0.6139	-0.20%
No. of Concession, Name of Street, Str	THE PERSON NAMED IN	SECTION SEC
Commodities	4:19 PM	Change
Gold	\$279.65	\$0.75
Oil (Brent)	\$18.64	-50.13
Near-dated NYMEX		

4:19 PM

\$19.87

Change

-50.05

Other cross rates

contract.

Tomorrow's Events: Bank of England's MPC begins	Time	Actual	Consensus Expectation	Previous Period
Bank of England's MPC begins	first of two-day meeting	·g.		
EUR Business Climate Indicator			-0.80	-0.57
EUR Retail Sales Volumes, Aug	l.		+0.1% m/m	+0.3% m/m
GER Manufacturing Orders, Se	ot.		-1.5% m/m	+1.4% m/m
US Non-farm Business Producti	vity, 3Q 8:30 AM		+2.0% g/g	+2.1% g/g
EIS Wholevaler Investories, Sec	10 AM		-0.3% m/m	-0.1% m/m

For Internal Use Only

Drafted by: Kathleen M.P. Byrne 11/6/01, 4:19 PM

GLOBAL FINANCIAL MARKETS 11/6/01 4:15 PM

		5-New		5-Nev			6-Nov	Friday's ele-	26	This week		This year
SPERFORMANCE	a na kysnostičninja	电子电子	100	denn f	Green.	Au coder	eritelen vir	SHARET AND		(E)	- 70	Salaring .
Yea		131.20		121.67			-0.39%	121.74		-0.44%		-5.9454
Euro		0.3949		0.8982			0.37%	0.9030		0.91%		~5.8654
Storling		1,4570		1,4586			0.11%	1.4629		0.40%		-2.42%
Canadias \$		1,5926		1,6407			0.29%	1.6298		0.9656		-2.14%
Australian 5		0.5138		0.5093			-0.04% -0.08%	1.5912 0.5868		0.0916		-6.24%
Korcan wan		1290.0		1291.0			-0.08%	1291.0		-0.97% -0.08%		-8.05%
Indonesian rupiah		10835		10935			-0.02%	10675		1.50%		-1.98%
Philippine pero		51.95		51.95			0.00%	51,95		0.00%		-11.99% -3.90%
That babt		44.68		44.67			0.80%	44.73		4.11%		-2.94%
Tairran S		34.50		34.50			0.00%	34.50		0.00%		+1.17%
Polish zluty		4.091		4.109			-0.43%	4,129		-0.70%		1,00%
Russian ruble		29.73		29.72			0.04%	29.75		-0.09%		+1.15%
South African rand		9.465		9,491			-0.27%	9.528		-0.66%		-24.78%
Mexican pero		9.211		9,216			-0.05%	9.273		-0.67%		4.47%
Brazilian reál		2.608		2.582			1.01%	2.672		-1.40%		-33,74%
COMMODITIES		gragesta et		and the second	241	AVES.	7417-	JEWAL C	9400	45-		
Gold		\$279.90		278.95			0.34%	5279.95		-4.02%		2.75%
European Brent		\$18.64		\$18.78			-9.7514	\$18,63		0.05%		-17,45%
Near Nymes futures		\$19.85		\$20.00			-0.75%	\$20.18		-1.64%		-25,95%
CRB ludex		5194.72	5	185.12			-0.22%	\$185.65		-0.50%		-18.92%
THERE'S EQUITIES	The second	to collect on	0.15.000	or providence	157	\$200day 9	中的 性系统 6	- Month TD - CP	100	A COLUMN	3-7	eliminates.
Dow Jones		9,591		9,441			1.59%	9,324		2.87%		-1049%
Navdaq		1,835		1,294			2.31%	1,746		5.12%		25,72%
S&P 500		1,119		1,103			1.45%	1,067		2.91%		-15.36%
Nikkai 225		10,634		10,448			1.78%	10,384		2,41%		-22.86%
Japan Topix German DAX		1,864		1,054			0.50%	1,054		0.94%		-17.15%
French CAC-40		4,462		4,755			-1.00% -4.53%	4,583		2.71%		-26.83%
U.K. FTSE-100		5,214		5,209			0.10%	4,369 5,130		2.11% 1.65%		-24,72%
H.K. Hang Song		10.356		16,431			40.72%	10,186		1.67%		-16.21% -34.40%
Korean Kospi		565		562			0.65%	551		2.71%		12.06%
Taiwas Weighted		4.083		4.081			0.06%	3,998		3,1174		-13.93%
Polish Wig		13,556		13,644			-0.64%	13,640		-0.61%		-24.64%
South African JSE		8,649		8,749			-1.04%	8,708		-0.68%		3.88%
Mexican Boha		5,678		5,681			-0.0679	5,633		0.80%		0.45%
Brazilian Bovespa		12,416		12,165			2,06%	11,388		9.03%		-1844%
AMISTRALIC DE LES	05000000000	S CONTRACTOR OF	BOOK SE	TENETRE O	7000	1332580	E-27 35-10	NATE 7811	WW.	CONTRACT OF CO	1700	a least to the
Nomight rate	2.20 -28	6.05		3.85	9	3.77	-5	3.85	9	3.85	9	2.75
-month bill	1.87 -15	0.01		3.47	-2	4.04	2	3.39	ő	3.47	-2	2.23
-year bond	2.35 -6	9.12		3.04	-1	4.14	2	3.05	-2	3.17	-2	2.78
-year bond	3.50 -6	8.46	0	3.65	1	4.46	0	3.69	1	3.78	-1	4.86
Dyear bond	4.27 -4	1.30	0	4.32	1	6.44	0	4.47	2	4.69	2	4.96
byear bood	4.85 0	2.40	0	4.95	3	4.22	0	5.04	2	5.32	2	5.32
							-					

9 4.77	56	192	250	
4 -4	-5	4		
	d -1	d 4 .5	d -4 -5 4	d -4 -5

EMERGING FIXED INCOME	Karea 768	Thailand '11	Intensia We	Russia MinFin '07	Poland PDI
Current Bgo chunge	5.45 -2 Arzentina Par	5.00 -15 Brazil C	11.88 mehanged Mexico Par	13.52 unchanged <u>Venezuela_BCB</u>	7.67 unchanged
Current	\$1.39	15.27	8.92	13.63	
Bps change	-503	-43	-25	31	

					Currenc	ies			
		n local currency me)	-	Perce	ent Change	(In Dollars	per Unit T	erms) -	
	6-Nev	5-Nov	6-Nov	5-Nav	This work	This wanth	This year	In '80	In '92
Japan	121.20	121.67	0.4%	0.1%	0.0%	1.0%	-5.9%	-11.9%	11.3%
Euro	0.8949	0.8982	-0.4%	-0.5%	-0.9%	-0.65%	-5.1%	-6.3%	-14.3%
EuroYen	108.48	109.23	-0.7%	-0.6%	-1.3%	-1.6%	0.7%	4.4%	-22.3%
UK	1.4570	1.4586	-0.1%	-0.3%	-0.4%	0.2%	-2.4%	-7,7%	-2.5%
Germany	2.1857	2.1775	-0.4%	-0.5%	-0.9%	-0.6%	-5.3%	-6.8%	-13.8%
Australia Canada	0.5138 1.5926	0.5093 1.5933	0.9%	-0.9% 0.0%	1.0% -0.1%	2.1%	-8.1%	-14.9%	-0.5%
Gold	279.90	278.95	0.3%	0.3%	0.0%	-0.3% 0.1%	-6.2% 2.8%	-3.7% -5.5%	-1.0% -0.4%
Thailand	44.68	44.67	0.0%	0.1%					
Indonesia	10,835	10925	0.8%	-2.3%	0.1% -1.5%	0.1% -3.4%	-2.9%	-15.7%	-2.3%
Malaysia	3.80	3.80	0.0%	0.0%	0.056	0.0%	-12.0% 0.0%	-38.5% 0.0%	0.0%
Philippings	51.95	51.95	0.0%	0.0%	0.0%	0.0%	-3.9%	-24.1%	-4.2%
South Korea	1,290	1291	0.1%	0.0%	0.1%	0.1%	-2.0%	-11,4%	6.0%
Taiwan	34.50	34.50	0.0%	0.056	0.0%	0.0%	-4.2%	-8.5%	2.7%
Singapore	1.8175	1.8210	0.2%	0.2%	0.4%	0.3%	4.8%	-4.1%	-1.05%
China	3.28	8.28	0.0%	0.0%	0.0%	0.055	0.056	0.0%	0.0%
Brazil	2.6080	2.5820	-8.0%	3.5%	2.4%	3.3%	-33.7%	-8.0%	-33,1%
Mexico	9.2105	9.2150	0.0%	0.6%	0.7%	0.8%	4.5%	-1.4%	4.1%
Chile	704.95	711.15	0.9%	0.4%	1.3%	1.2%	-22.9%	-8.3%	-10.7%
Colombia	2,369.00	2310.60	0.1%	0.0%	0.1%	0.0%	-3.3%	-19,3%	-17,3%
Venezuela Poland	743.50	743.50	0.0%	0.0%	0.0%	0.1%	-6.3%	-7.8%	-13,0%
Hungary	4.0910	4.1087	0.4%	0.3%	0.7%	0.0%	1,0%	0.1%	-15.1%
Czech	289.78 37.371	281.91 37.267	0.4% -0.3%	0.2%	0.6%	0.9%	0.0%	-11.0%	-14.5%
Russia	29.727	29.715	0.0%	-0.4% 0.1%	-0.7%	-0.2%	0.7%	-5.1%	-15.7%
South Africa	9,4650	9.4908	0.3%	0.4%	0.1% 0.7%	0.0%	-4.2%	-3.6%	-25.2%
Turkey	1,545,000	1,558,000	0.8%	0.8%	1.6%	3.1%	-24.7% -130.5%	-23.5% -23.6%	-4.5% -41.9%
Greece	380,79	379.37	-0.4%	0.5%	-0.9%	-0.6%	-130,3%	-10.2%	-13.9%
	Unit Ch		E	quities (In		ency terms)			
	6-Nav	5-Nov	6-New	5-Nar	This wk	This mo	This ye	Ln 100	Iu '99
Dose	9591	9441	1,6%	1,3%	2.9%	5.7%	-11.1%	-6.2%	
Nandug	1835	1794	2,3%	2.7%	5.1%	8.6%	-11.1% -25.7%	-9.2% -39.3%	25.2% 85.6%
Nikkei	10634	10448	1.856	0.6%	2.4%	2.6%	-22.9%	-27.2%	36.8%
FT-SE 100	5214	5209	0.1%	1.6%	1.6%	3.5%	-16.2%	-10.2%	17,8%
DAX	4708	4755	-1.0%	3.7%	2.7%	3.3%	-26.8%	-7.5%	39.1%
CAC-49	4462	4485	-0.5%	2.7%	2.1%	2.8%	-24.7%	-0.5%	51.1%
Thailand	271	273	-0.6%	-6.4%	-1.0%	-1.3%	0.8%	-44.1%	35.4%
Indonesia	375	375	0.1%	-1.4%	-1.4%	-2.2%	-9.8%	-38.5%	79.1%
Malaysia	593	593	0.0%	-0.6%	-0.7%	-1.2%	-12.8%	-16.3%	38.6%
Philippines	989	998	-0.9%	0,4%	-0.5%	-0.5%	-33.9%	-30.3%	8.8%
Hong Kong	10356	10431	-0.7%	2,4%	1.7%	2.8%	-31,4%	-11.0%	68.8%
South Keesa Taiwan	565 4983	562	0.7%	2.0%	2.7%	5.1%	12.1%	-50.9%	82.8%
Singapore	1335	4081 1340	0.1% -0.4%	2.1%	2.1%	4.6%	-13.9%	-43.9%	31,6%
China	157	156.03	0.4%	-0.1% 0.0%	-0.5% 0.4%	42,4% 0,2%	-30.7% 75.0%	-22.3% 136.2%	78.0% 32.0%
Brazil*	12416	12165	2.1%	6.8%	2.0%	9,2%	-18,6%	-10.7%	151,9%
Argentina*	231	231	0.0%	3.7%	3.7%	2.6%	-44.6%	-24.3%	28.0%
Mexico*	5678	5681	-0.1%	0.9%	0.8%	2.5%	0.5%	-20,7%	80.1%
Chile	105	104	1,2%	1.0%	2.2%	1.6%	9.0%	-32.6%	41.8%
Colombia	T82	779	0.3%	0.0%	0.3%	-4.0%	9.6%	-28.6%	-9.3%
Venezuela	6532	6770	-3.5%	0.0%	-3.5%	-2.3%	-4.3%	26.0%	14.8%
Poland	13556	13644	-0.6%	0.0%	-0.6%	-1.3%	-24.0%	-1.3%	41.3%
Hungary	6879	6850	0.4%	1.1%	1.6%	1.6%	-12.4%	-11.0%	39.8%
Czech.	385	382	0.6%	0.2%	0.8%	2.5%	-19.6%	-2.3%	24.2%

0.2%

3.9%

0.4%

2.2%

2.3%

0.826

1.9%

-0.756

3.8%

2.5%

2.5%

1,65%

1.2%

6.2%

5.1%

-19.6%

44.7%

3.9%

10.8%

-23.5%

 $-2.3\%_{\rm P}$

-18.2%

-2.5%

-37,9%

-38.8%

24.2%

197.4%

57.3%

485,4%

102,2%

0.6%

-2.0%

-1.0% %

1.6%

0.125

Czech

Russia

Turkey

Grosco

South Africa

385

207

8649

10456

2593

382

212

8740

10292

2590

^{*} Equation begin making in Brazil, Argordina, and Moxico at 8:32 a.m., 9:00 a.m., and 9:30 a.m. Easitiet time respectively.

From:

Sharer, James

Sent:

Tuesday, November 06, 2001 12:54 PM

To:

DL Market Group; Andrew D. Sacher, David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Noon Report 11/6/01

- -- U.S. equities were narrowly mixed ahead of the outcome of today's FOMC meeting (2:15 PM)
- -- Treasury prices were also mixed, long bonds outperforming on scarcity value
- -- Dollar mixed in thin trading, marking time for Fed's decision

U.S. equity markets were narrowly mixed in active trading ahead of the FOMC meeting outcome. Enron Corp. was off 11.5% to 9.89 following news that the firm is seeking to raise \$2 billion. The worst stock performers were oil, telephone. drug, software and oil-well equipment issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to up 1/4 point in light trading. Prices of short-term issues edged lower on new Treasury supply, while gains in bond prices reflected scarcity value. Treasury auctioned today \$16.0 billion 4-week T-bills to raise \$10.0 billion. The results: Awarded rate: 2.140% Coverage ratio: 1.42 times.

Treasury will auction at 1 PM \$16 billion 5-year notes, which together with tomorrow's auction of \$7.0 billion 9 3/4-year notes will raise \$1.412 billion new cash. Traders expect the awarded rate will be close to 3.64%. This compares with the 4.67% yield awarded in the last Treasury 5-year note auction in August. The WI 9 3/4-year notes were bid at 4.30%. (JSharer 2-2042)

Interest Rate Futures: Participants continue to debate the likelihood of a full 50 basis point cut in the Federal Funds rate. At 2.195%, the implied yield on the November Fed Funds futures contract is pricing in a 53% chance of 50 basis points of easing, down from almost 70% last night. Traders noted that positioning by participants in the Treasury market and by a number of primary dealers in the Eurodollar market reflecting more widespread anticipation of a smaller rate cut. (KByrne, 2-2054)

Commodities: Just a day after OPEC Secretary General Rodriguez predicted production cuts as deep as 1.5 million barrels/day, other OPEC members warned of an impending "price war" absent an agreement with non-OPEC producers to reduce supply. Nymex crude futures prices slipped to fresh two-year lows and the Brent front month contract fell below the \$19/barrel mark for the first time since July 1999. Participants await U.S. API stock data, predicting a build in crude oil inventories for the third straight week. (KByrne, 2-2054)

Global Markets

The major currencies traded in a very narrow range this morning. No strong directional movement is expected by market observers until the BOE and the ECB's rate decisions are announced on Thursday. (LQuinn, 2-9122)

Europe: German bund yields were down 2 to up 3 bps. U.K. gilt yields were unchanged to up 2 bps on some profit-taking. European stock bourses closed narrowly mixed.

Turkey's National 100 index was up 1.6% to 10,456 and the lira firmed 1.0%, aided by continued optimism over IMF talks and a successful debt sale today. The Turkish EMBI+ sub-index narrowed 20 bps to 877 bps. (JSharer 2-2042).

Latin America: Fitch cut Argentina's sovereign long-term foreign and local currency credit ratings to C from CC today and said the debt swap points to a default. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 850 and 4150, respectively. The JP Morgan EMBI+ spread narrowed 11 bps to 1079 bps over the comparable Treasury securities. The Argentine sub-index narrowed 54 bps to 2381 bps, while the Brazilian and Mexican sub-indexes fell 14 bps to 1120 bps and 5 bps to 394 bps, respectively. (JSharer 2-2042)



Noon Global Financial Markets

- U.S. equities were narrowly mixed ahead of the outcome of today's FOMC meeting (2:15 PM)
- Treasury prices were also mixed, long bonds outperforming on scarcity value
 Dollar mixed in thin trading, marking time for Fed's decision

U.S. Markets

U.S. equity markets were narrowly mixed in active trading ahead of the FOMC meeting outcome. Enron Corp. was off 11.5% to 9.89 following news that the firm is seeking to raise \$2 billion. The worst stock performers were oil, telephone, drug, software and oil-well equipment issues. (JSharer 2-2042)

Treasury coupon prices were down 1/8 to up 1/4 point in light trading. Prices of short-term issues edged lower on new Treasury supply, while gains in bond prices reflected scarcity value. Treasury auctioned today \$16.0 billion 4-week T-bills to raise \$10.0 billion. The results: Awarded rate: 2.140% Coverage ratio: 1.42 times.

Treasury will auction at 1 PM \$16 billion 5-year notes, which together with tomorrow's auction of \$7.0 billion 9 3/4-year notes will raise \$1.412 billion new cash. Traders expect the awarded rate will be close to 3.64%. This compares with the 4.67% yield awarded in the last Treasury 5-year note auction in August. The WI 9 3/4-year notes were bid at 4.30%. (JSharer 2-2042)

Interest Rate Futures: Participants continue to debate the likelihood of a full 50 basis point out in the Federal Funds rate. At 2.195%, the implied yield on the November Fed Funds futures contract is pricing in a 53% chance of 50 basis points of easing, down from almost 70% last night. Traders noted that positioning by participants in the Teessury market and by a number of primary dealers in the Eurodollar market reflecting more widespread anticipation of a smaller rate out. (KByme, 2-2054)

Commodities: Just a day after OPEC Secretary General Rodriguez predicted production cuts as deep as 1.5 million barrels/day, other OPEC members warned of an impending "price war" absent an agreement with non-OPEC producers to reduce supply. Nymex crude futures prices slipped to fresh two-year lows and the Bount front month contract fell below the \$19/barrel mark for the first time since July 1999. Participants await U.S. API stock data, predicting a build in crude oil inventories for the third straight week. (KByme, 2-2054)

Global Markets

The major currencies traded in a very narrow range this morning. No strong directional movement is expected by market observers until the BOE and the ECB's rate decisions are announced on Thursday. (LQuim, 2-9122)

Europe: German bund yields were down 2 to up 3 bps. U.K. gilt yields were unchanged to up 2 bps on some profit-taking. European stock bourses closed narrowly mixed.

Turkey's National 100 index was up 1.6% to 10,456 and the lira firmed 1.0%, aided by continued optimism over IMF talks and a successful debt sale today. The Turkish EMBH+ sub-index narrowed 20 bps to 877 bps. (JSharer 2-2042)

Latin America: Fitch out Argentina's sovereign long-term foreign and local currency credit ratings to C from CC today and said the debt swap points to a default. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 850 and 4150, respectively. The JP Morgan EMB1+ spread narrowed 11 bps to 1079 bps over the comparable Treasury securities. The Argentine sub-index narrowed 54 bps to 2381 bps, while the Brazilian and Mexican sub-indexes fell 14 bps to 1120 bps and 5 bps to 394 bps, respectively. (JSharer 2-2042)

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Equities	12:09 PNI	Change
DUIA	9,429	-0.10%
Nasdaq	1,799	0.50%
S&P 500	3,102	40.00%
Wilshire Ter Mkr.	10,131	4102%
DJIA Vel.	18,571,900	
Canadian TSE	7,078	-0.02%
Mexican Bolas	5,649	-0.22%
Brandise Bovespa	12,383	1,175
German Dux	4,737	40.38%
French CAC-40	4,452	-0.53%
U.K. STSB	5,214	0.00%
Nikhti -775	10.634	1.78%

U.S. Tressuries	12:09 PM	Change hps
Lenonts hill	2.02%	d
3-meab till	2.00%	-2
6-month (iii)	1.56%	d
2-year	2,49%	6
5-year	3.58%	2
10-year	4.29%	-2
30-year	4.82%	-3

Money Markets	12:09 P54	Chainge has
Dvornight rato	2.13%	-0
Boc. Fod Funde constact ing yield	1.94%	3

USD performance	33	L2:09 PM	Change
Japanese yes		121.11	-0.45%
Buro	5	0.8972	9.03%
Starting	5	1.4584	49.01%
Swite (rand		1,6397	49.0216
Canadian dollar		1.5829	818654
Maximo peso		9.213	61.00%
Brook is a rook		2,592	0.42%

Other cross rates	12:09 PM	Change
Euro'yes	108.7	41.44%
Eurobioling	0.6150	4042%

Commodities	12:49 PM	Change
Gold.	\$279.45	\$4.75
Oil (Brown)	\$18.67	-51.33
Near-dured NYMEX futures contrast.	\$19.76	-91.36

Today's Events: US Treasury 5-year note auction US FOMC meeting Astral

Consenus Expectation

Previous Period

For Internal Use Only

Drafted by: Jim Sharer 11/6/01 12:50 PM

GLOBAL FINANCIAL MARKETS 11/6/01 12:00 PM

Yen Euro Sterling Switm Canadian S Austration S Euroan wan Inducedan repiah Philippine pein Thai bake Tainein S Pelish staty Russian cuble South African cand Medican pess Bradillan real	825.15 0.8975 1.4590 1.6482 1.9336 0.5112 1390.0 19835 51.95 44.66 34.50 4.886 19.75 9.459 9.213 2.998	121.67 0.8982 1.4586 1.4487 1.9933 0.5093 1291.0 10925 51.95 44.67 34.50 4.105 29.72 9.491 9.215 2.582		-0.43% -0.43% -0.43% -0.05% -0.	121.74 0.9020 1.4629 1.4298 1.5912 0.5088 1291.0 10075 51.96 44.73 34.50 4.120 20.75 9.228 9.273 2.472	-0.49% 0.61% 0.21% 0.64% 0.15% -0.86% -0.88% 1.99% 0.00% -0.15% 0.00% -0.82% -0.82% -0.82% -0.25% -0	-5.90% -4.78% -2.21% -5.31% -6.31% -6.36% -1.90% -1.90% -3.90% -3.90% -2.90% -4.27% -4.27% -4.27% -3.22% -3.22%
Euro Sterling Swim Canadian S Austratian S Karran wan Indonesian rupiah Philippine pean Thai bahe Taiwan S Pulish staty Rustian ruble South African rand Mexican pean Bracillan reil	0.8975 1.4590 1.6462 1.9306 0.5132 1190.0 10835 51.95 44.66 34.50 4.486 29.75 9.458 9.213 2.598	8.8982 1.4586 1.6983 1.9933 0.5093 1291.0 10925 51.95 44.67 34.50 4.105 29.72 9.491 9.215 2.582		6.07% -6.03% -6.03% -6.03% -6.76% -0.85% -0.82% -0.08% -0.65% -0.45% -0.45% -0.45%	0.9626 1.4629 1.4629 1.6298 1.5912 0.5088 1291.0 10675 51.96 44.73 34.50 4.126 20.75 9.528 9.223 2.472	0.61% 0.27% 0.64% 0.15% -0.85% -0.85% 0.00% -0.15% 0.00% -0.15% -0.82% -0.82% -0.82% -0.82% -0.82% -0.82% -0.82%	4,78% -2,28% -1,81% -6,38% -8,14% -1,93% -1,93% -3,90% -3,90% -3,90% -4,17% -4,17% -4,21% -4,21% -4,41% -3,21%
Sterling Swim Canadian S Australian S Karcan wan Inducesian rupish Philippine pean Thai bake Tairean S Polith July Russian cuble South African rand Mexican pean Bracillan reili COMMODIBLES Gold European Breat	1.4590 1.6442 1.9336 0.5132 1390,0 10833 51.95 44.66 34.50 4.486 29.75 9.459 9.213 2.998	1.4586 1.6487 1.5933 0.5933 0.291.0 10925 53.95 44.67 34.59 29.72 9.491 9.215 2.592		-0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00%	1.4629 1.4298 1.5982 0.5088 1291.0 10675 58.96 44.73 34.50 4.126 29.75 9.528 9.223 2.672	0.27% 0.64% 0.15% -0.66% -0.66% -0.65% -0.65% -0.65% -0.65% -0.65% -0.65% -0.75% -0.75%	-2.28% -1.81% -6.38% -8.16% -1.89% -1.99% -3.90% -2.50% -4.17% -4.27% -4.27% -3.21%
Committee 1,6462 1,9306 0,5132 1390,0 19835 51,95 44,66 34,50 4,985 29,75 9,459 5,213 2,598	1.6487 1.9933 0.5993 1291,0 10925 51,95 44,67 34,50 4,169 29,72 9,451 9,215 2,582		-0.076 0.0276 -0.7676 -0.8276 -0.8276 -0.8276 -0.0076 -0.5576 -0.4576 -0.4576 -0.4576	1,6298 1,5912 0,5088 1291,0 10675 \$1,96 44.73 34.50 4.126 19,75 9,528 9,273 1,672	0.64% 0.15% -0.66% -0.65% -0.05% 0.00% -0.15% -0.00% -0.82% -0.02% -0.02% -0.02% -0.02% -0.02% -0.02% -0.02% -0.02%	-1.51% -6.31% -8.16% -1.95% -1.95% -3.90% -4.17% -4.17% -4.23% -4.23% -4.43% -4.44% -3.521%	
Canadian S Australian S Earcan wan Indonesian rupish Philippine pean That bate Tairean S Polish staty Russian entile South African cand Mexican pea Bracillan real	1,9936 0,5132 1390,0 98835 51,95 44,66 34,50 4,985 29,75 9,459 9,213 2,998	1.9933 0.5093 1291.5 10925 51.95 44.67 34.50 4.169 29.72 9.491 9.215 2.582		0.03% -0.76% -0.88% -0.88% -0.00% -0.00% -0.55% -0.43% -0.43% -0.43% -0.43%	1,5912 0,5088 1991.0 10075 51,96 44.73 34,50 4,130 29,75 9,528 9,223 1,672	0.15% -0.86% -0.05% 1.99% 0.00% -0.15% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00% -0.00%	638% -816% -138% -1399% -350% -250% -427% -427% -427% -447% -3321%
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Korean wan Ladaresian rupiah Philippine pena Thai bahe Tairen S Polish zioty Russian enble South African cand Mexican pesa Beradian reali COMMUNICIPIES Gold European Breat	1290.0 10835 51.95 44.66 34.50 4.486 29.75 9.459 9.213 2.998	1291.0 10925 51.95 44.67 34.50 4.105 29.72 9.491 9.215 2.592		-0.88% -0.82% -0.82% -0.02% -0.05% -0.55% -0.45% -0.45% -0.45%	1291.0 10675 58.96 44.73 34.50 4.136 29.75 9.528 9.273 2.672	-0.83% 1.99% 0.00% -0.15% 0.00% -0.82% -0.02% -0.82% -0.40% -0.40% -0.40% -0.40%	-1,88% -11,99% -3,90% -2,90% -4,17% -4,17% -4,23% -24,51% -33,21%
Inducesian rupiah Philippine pean Thai bale Tairent S Polish ziety Russian cuble South African rand Mexican pean Bracilian real	9835 51.95 44.66 34.50 4.86 29.75 9.459 5.213 2.598	10925 \$1,95 44,67 34,59 4,169 29,72 9,491 9,215 2,582		-0.82% 0.80% -0.82% -0.85% -0.85% -0.43% -0.43% -0.43% -0.43%	10675 \$1,95 \$4,73 34,50 4,126 19,75 9,528 9,273 1,672	1.50% 0.00% -0.15% -0.05% -0.00% -0.02% -0.02% -0.05% -0.05% -0.05%	-11.99% -3.90% -2.80% -4.37% -4.23% -4.23% -24.51% -34.24% -33.21%
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Thai bake Taiwan S Polish ziety Russian entile South African rand Mexican pesa Bracilian reali COMMUNICATION Gold European Breat	44.66 34.50 4.886 19.75 9.459 9.213 2.598	44.67 34.50 4.109 29.72 9.491 9.215 2.582		-0.02% -0.00% -0.55% -0.45% -0.45% -0.05%	44.73 34.50 4.126 29.75 9.528 9.233 2.672	-0.15% -0.00% -0.82% -0.02% -0.02% -0.65% -0.15%	-2,80% -4,87% 1,12% -4,23% -24,51% -4,47% -33,21%
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Russian cubile South African cand Mexican pesa Beneditan real COMMUNICATION Gold European Breat	29,75 9,459 9,213 2,998 S279,90	4.169 29.72 9.491 9.215 2.582		-0.55% 0.11% -0.45% -0.05% 0.66%	4.[16 29.75 9.528 9.273 2.672	4.82% 4.02% 4.82% 4.65% 4.75%	1.12% 4.23% -24.51% 4.44% -33.21%
South African rand Mexican pess Bracilian real COMMUNICIPIES Gold European Bress	9,458 9,213 2,998 S279,90	9.491 9.215 2.582 \$278.95		8.11% -0.43% -0.03% 0.66%	29,75 9,528 9,273 2,672	-4.02% -4.82% -4.65% -2.79%	423% -2451% 444% -33.21%
Mexican pesa Bracilian redi COMMINGTIES Gold European Bress	9.213 2.998 S279.90	9,215 2,582 \$278.95		-0,43% -0,03% 0,60%	9.528 9.233 2.672	4.81% -4.65% -2.79%	-34.51% -4.44% -33.21%
Bracilian real COMMINGUIS Gold European Bress	1.978 5279.98	2.592 \$278.95		0.60%	9,273 2,672	-8.65% -2.79%	4.44% -33.21%
Gold European Bress	\$279.50	\$278.95	w yes			-2.79%	-33.21%
Gold European Dresst	Mar 1 1 1 2 2 2			0.34%	5779.05	AAPS	170
Gold European Dresst	Mar 1 1 1 2 2 2		engaj kula	0.34%	5779.05	.0.02%	3.70
European Bresst	Mar 1 1 1 2 2 2			0.34%	5778 OF	-0.02%	3.766
	518.71	E-4 E-140					4.7955
		518.78		-0.32%	518.63	0.48%	-17,89%
Near Nymex futures	519,97	520.00		-0.15%	520.18	-1.0416	-25,49%
CRB Index	\$184.82	\$185.12		-0.16%	\$185.65	-8.4514	-18.58%
Attent EQUITIES	The Park House	de la	Marin Service	the vilige	official services	February Co.	S. Oliveriday
Dow Junes	9,422	9,441		-0.20%	9,324	1.06%	-12.65%
Nording	1,798	1,794		0.26%	1,746	3.00%	-27,21%
542 500	1,101	1,283		-0.15%	1,087	1.28%	-16-6959
Nikkei 225	10,634	10,448		1,78%	10,384	2.41%	-22,86%
Japan Topix	1,064	1,054		0.90%	1,054	0.94%	-17.15%
German DAX	4,736	4,755		-0.49%	4,583	3.34%	-16,38%
French CAC-40	4,462	4,485		-0.53%	4,369	2.11%	-34.T2%
U.K. FTSE-100	5,214	5,209		0.10%	5,130	1.65%	-14.21%
H.K. Hong Seng Kornus Kospi	01,386 565	10,431		-0.72%	10,186	1.67%	-31.46%
Tailous Weighted	4,083	562 4.061		0.09%	551	2.71%	12,86%
Pelish Wig	13.556	13,644		48,64%	3,998	2.11%	-13,93%
South African ISE	8,649	8,740		-1.04%	8,708	-0.61% -0.68%	-24/04% 3.88%
Mexican Bolsa	5,671	5,881		48,1754	5,633	0.68%	0.34%
Brazilian Bavespa	12,372	12,165		1,70%	11,388	8,64%	-18.92%
							-
CARL STANDARD COM	BEAUTY DEVICES	Day of Private Confession	DATE BOOK	Propagation	(2000年)	e inte	all 1922,022 201
- contragator a series	2.20 -28 0.05		0 3.77	-8	3.76 8	3.76 0	2.25
	2.00 -2 0.01		2 4.04	2	3.39 0	3.47 -2	
	2.49 6 6.12		1 4.03		3.84 -2	3.17 -2	
g	3.58 2 0.46 4.29 -2 1.30		1 4.46	-2	3.70 I 4.47 2	3.79 I	4.15

US FIXED INCOME	2-roor Family	H-syar Panels	Ith size swap storead	2-10 year UST spread	2-10 year UST spread
Current	0.60	4.80	61	180	233
Bps charge	unchanged	4		-8	4

EMERGING FIXED INCOME	Kersu '08	Thailand '11	Indonesia '66	Rossja MinFle 187	Poland PO1	
Current Bps change	5.47 0 Atsortina Pat	5.00 -15 Brack C	11.08 unchunged <u>Mexico Par</u>	13.52 unchanged Venezuela DCB	7.05 -2	
Current	53,44	15.29	8.99	13.57		
Bys change	-298	-81	-16	25		

					Currenci	ies			
	Unit Change (In- tern			- Perce	ent Change	(In Dollars	per Unit Te	rmsj –	
	6-Nov	5-Nov	6-Nov	5.Nov	This week	This month	This year	In '90	Lu '99
Japan	121.15	121.67	0.4%	0.8%	0.5%	1.1%	-5.9%	-11.9%	11.3%
Euro	0.8975	0.8982	-0.1%	-0.5%	-0.6%	-0.3%	-4.8%	-6.3%	-14.3%
Euro Yen	108.66	109.23	-0.5%	-0.6%	-1.1%	-1.5%	0.9%	4.4%	-22.3%
UK	1.4590	1.4586	0.0%	-0.3%	-0.3%	0.3%	-2.3%	-7.756	-2.5%
Germany	2.1801	2.1775	-0.1%	-0.5%	-0.6%	-0.4%	-5.1%	-6.8%	-13,8%
Australia	0.5132	0.5093	0.8%	-0.9%	0.9%	2.0%	-8.2%	-84.9%	0.5%
Canado	1.5936	1.5933	0.0%	0.0%	-0.2%	-0.3%	-6.3%	-3.7%	-1.0%
Gold	279.90	278.95	0.3%	0.3%	0.0%	0.1%	2.8%	-5.5%	-0.4%
Thailand	44.66	44.67	0.05%	0.1%	0.1%	0.1%	-2.9%	-15,7%	-2.3%
Indonesia	10,835	10925	0.8%	-2.3%	-1.5%	-3.4%	-12.0%	-38,5%	14.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.054	0.0%	0.0%	0.0%
Philippines	51.95	51.95	0.0%	0.099	0.0%	0.055	-3.9%	-24,1%	4.2%
South Korea	1,290	1291	0.1%	0.0%	0.1%	0.1%	-2.0%	-11.4%	6.0%
Taiwan	34.50	34.50	0.0%	0.0%	0.0%	0.0%	-4.2%	-5.5%	2.7%
Singapore	1.3180	1.8210	0.2%	0.2%	0.3%	0.3%	4.9%	-4.1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.5975	2,5820	-0.6%	3.5%	2,8%	3.7%	-33.2%	-8.0%	-33.1%
Mexico	9.2125	9.2150	0.0%	0.6%	0.7%	0.8%	4.4%	-1.4%	4.1%
Chile	704.95	711.15	0.9%	0.4%	1.3%	1.2%	-22.9%	-8.3%	-10.7%
Colombia.	2,309.65	2310.60	0.0%	0.0%	0.1%	6.05%	-3.3%	-19.3%	-17.3%
Venezuela	743.50	743.50	9.0%	0.0%	0.0%	0.1%	-6.3%	-7.8%	-13.0%
Peland.	4.0862	4.1087	0.5%	0.3%	0.8%	0.1%	1.1%	0.15%	-15.1%
Hungary	289.35	281.91	0.6%	0.2%	0.7%	1.1%	0.1%	-11.056	-14.5%
Czech	37.309	37.267	-0.1%	-0.4%	-0.5%	0.0%	0.8%	-5.1%	-15.7%
Russia	29,747	29.715	-0.1%	0.1%	0.0%	-0.1%	-4.2%	-3.6%	-25.2%
South Africa	9.4500	9.4908	0.4%	0.4%	0.8%	-0.1%	-24.5%	-23.5%	-4.5%
Turkey	1,542,500	1,558,000	1.0%	0.8%	1.8%	3.3%	-130.1%	-23.6%	-41.9%
Greece	379.82	379.37	-0.1%	-0.5%	-0.6%	-0.4%	-5.1%	-10.2%	-13.9%

			E	quities (In	local curr	ency terms)		
	Unit Ch	nange			reent Change				
	6-Nov	5-Nov	6-New	5-Nov	This wk	Thir mo	This see	In '00	In '99
Daw	9422	9441	-0.2%	1.3%	1.1%	3.8%	-12.7%	-6.2%	25.2%
Needay	1798	1794	0.3%	2.7%	3.0%	6,4%	-27.2%	-39,3%	85.6%
Nikhei	10634	10448	1.8%	0.6%	2.4%	2.6%	-22.9%	-27.2%	36.8%
FT-SE 100	5214	5209	0.1%	1.6%	1,6%	3,5%	-16.2%	-10.2%	17.8%
DAX	4736	4755	-0.4%	3.7%	3,3%	3.9%	-26.4%	-7.5%	39.1%
C4C-48	4-462	4485	-0.5%	2.7%	2,1%	2.8%	-24.7%	-0.5%	51.1%
Thailand	271	273	-0.625	-0.4%	-1.0%	-1.3%	0.8%	-44.1%	35.4%
Indonesia	375	375	0.1%	-1.4%	-1.4%	-2.2%	-9.8%	-38.5%	70.1%
Malaysia	593	593	0.0%	-0.6%	-0.7%	-1.2%	-12.8%	-16.3%	38.6%
Philippines	989	998	-0.9%	0.4%	-0.5%	-0.5%	-33.9%	-30.3%	8,8%
Hong Kong	10356	10431	-0.7%	2.4%	1.7%	2.8%	-31,4%	-11.0%	68.8%
South Korea	565	562	0.7%	2.0%	2.7%	5.1%	12.1%	-50.9%	82.8%
Taiwas	4083	4081	0.1%	2.1%	2.1%	4.6%	-13.9%	-43.9%	31.6%
Singapore	1335	1349	-0.4%	-0.1%	-0.5%	-2.4%	30.7%	-22.3%	78.0%
China.	157	156.03	0.4%	0.0%	0.4%	0.2%	75.0%	136.2%	32.0%
Brazil*	12372	12165	1.7%	6.8%	8.6%	8.9%	-18.9%	-10.7%	151.9%
Argentina*	231	231	0.0%	3.7%	3.7%	2.6%	-44.6%	-24.3%	28.0%
Mexico"	5671	5681	-0.2%	0.9%	0.7%	2,4%	0.3%	-29.7%	80.1%
Chile	105	104	0.9%	1.0%	1,9%	1,3%	8.8%	-32.6%	41.8%
Colombia	779	779	0.0%	0.0%	0.0%	4.3%	9,3%	-28.6%	-9.3%
Venezuela	6530	6770	-3.5%	0.0%	-3.5%	-2.4%	-4.3%	26,0%	14.8%
Poland	13556	13644	-0.4%	0.0%	4.4%	-1.3%	-24.0%	-1.3%	41.3%
Hungary	6879	6850	0.4%	1,194	1.6%	1.6%	-12.4%	-11.05%	39.8%
Czech	385	382	0.6%	0.2%	0.8%	2.5%	-19.6%	-2.3%	24.2%
Russia	207	212	-2.8%	3,9%	1.9%	1.6%	44.7%	-18.2%	197.4%
South Africa	8649	8749	-1.0%	0.4%	-0.7%	1.2%	3,9%	-2.5%	57.3%
Turkey	10456	10292	1.6%	2.2%	3.8%	6.2%	10.8%	-37.9%	485.4%
Greece	2593	2590	0.1%	2.3%	2.5%	5.1%	-23.5%	-38.8%	102.2%

^{*} Gouties segin hading in Brazil, Argentina, and Monico at 6:00 a.m., 9:00 a.m., and 9:00 a.m. Eastern time respectively.

From:

Sharer, James

Sent:

Monday, November 05, 2001 8:12 AM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarig; wayneea

Subject:

Financial Markets Morning Report 11/5/01

- -- Global equity markets were mostly firmer; Royal Dutch may purchase Enron; Boeing wins \$6.6 billion order for 25 aircraft from Emirates.
- -- Dollar strengthened vs. the euro and sterling on weak economic data and an FT report stating that an EMU member (Italy) deliberately manipulated budget data.

Foreign Markets

Japan: Japan's leading diffusion index fell to 37.5 in September from a revised 50.0 in September, as expected. The BOJ's Suda played down the threat of intervention, suggesting that intentionally weakening the yen may be harmful, but a "natural" decline would be tolerated. The Nikkei 225 index and the TOPIX index edged up 0.6% and 0.1%. JGB yields were unchanged to down 2 bps in thin trading, with the JGB 10- and 30-year yields at 1.30% and 2.40%, respectively.

Emerging Asia: Emerging Asian stock markets were mostly higher. The Hang Seng, Taiwan and Kospi indexes rose 2.0% to 2.4%. However, the Thai, Jakarta and Kuala Lumpur indexes posted modest declines. Singapore's ruling People's Action Party won 75% of the popular vote in the general election on Saturday.

Europe: Euro Area HICP index rose 2.4% y/y in October, marking the fifth month decline, roughly as expected. However, U.K. economic data on September industrial production and October PMI services were much weaker than anticipated, raising expectations for a possible 50 bps easing by the BOE this Thursday. The ECB policy board is also scheduled to meet on Thursday. However, BBK President Welteke played down the chances of an ECB rate cut, stating that further ECB easing could pump up liquidity too much and fuel inflation expectations. European stock bourses were stronger by 0.8% to 2.3%, with the DAX outperforming. German bund yields were lower by 1 to 5 bps, while U.K. yields were down 3 to 17 basis points.

Brent crude oil is currently up \$0.60 to \$19.22 a barrel, marking the 32nd day below the \$22 a barrel level. OPEC officials continued to indicate that a 1 million bpd production cut was possible.

Turkey: Turkey's National 100 index was up 0.9% to 10,158 and the lira was 1.0% firmer to TRL 1,555,000. Hopes for IMF aid offset news of a larger-than-expected 6.6% m/m rise in the October CPI. The Turkish EMBI+ sub-index rose 38 bps to 934 bps, while the overall EMBI+ narrowed 8 bps to 1112 bps.

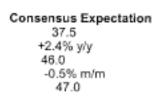
Latin America: The Argentine EMBI+ sub-index narrowed 55 bps to 2530 bps, while Brazil's EMBI+ sub-index narrowed 20 bps to 1165 bps. Argentina's Cavello will hold a press conference at 11 AM.

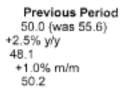
U.S. Assets Overnight

Treasury coupon prices are currently up 1/8 to 5/8 point in light trading ahead of the 10 AM release of the October non-manufacturing NAPM index. The Dow, S&P 500 and Nasdaq index futures are indicating moderate strength at the New York open.

Today's Events:
JPN Leading Diffusion Index, Sept.
EUR Prelim. HICP, Oct.
UK PMI Services, Oct.
UK Industrial Production, Sept.
US Non-manufacturing NAPM, Oct.

Actual
37.5
+2.4% y/y
46.3
-1.2% m/m
10 AM







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- Dollar strengthened vs. the euro and sterling on weak economic data and an FT report stating that an EMU member (Italy) deliberately manipulated budget data.
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	[1/5/01/7/49 AX]						
USD versus	- 2	547.AM	Change				
Јарапске уон		122.06	0.38%				
Euro	5	0.8955	0.67%				
Statling	S	1.4533	0.58%				
Corodian dellar		1.5917	0.09%				
Aussie dollar	S	0.5069	0.18%				
Thai babt		44.65	-2.09%				
Indonesian rupiah		10930	2.11%				
Korean wox		1286	-0.78%				
ALMORAGO DE RES		STREET, STREET,					

Tomasony Market Analysis Chin Red 2450.

7:47 AM	Change
109.3	-0.64%
0.6164	-0.16%
	109.3

Equities	T:47.AM	Change
S&P Futures	1,094	0.42%
Nilderi-225	10,443	0.61%
Thulland	272.99	-0.45%
Isdonesia	375.21	-1.43%
Malaysia	592.85	-0.64%
Hong Kong	10.431	2,40%
S. Korea	561.62	2.00%
Taiwan	4,081	2.05%
		1.3"03
German Dax	4,690	2.33%
Pronch CAC-40	4,427	1.31%
U.K. PTSE	5,171	0.81%
Russin RTS	209.01	2,70%
Poland WIG	13,593	-0.34%

U.S. Treasuries	7:47 AM	Change bps
3-month bill	1.99%	-3
6-mouth bill	1.93%	-2
2-year	2.47%	-1
5-year	3.60%	-2
10-year	4.34%	-1
30-year	4.92%	4
PROPERTY AND LOSS OF THE RESIDENCE OF TH	THEORY IS NOT THE	OF THE RESIDENCE.

Credit Overseas	7:47 AM	Change hps
3-month Euribor	3.49%	-1
10-yr German bund	4.29%	-5
3-morrá 3-Bills	0.01%	inchanged
10-yr JGB	1.30%	-1
3-month U.K. bills	4.02%	-5
10-ye U.K. gilt	4,44%	-7

Commodities	7:47 AM	Change
Gold:	\$278.50	-\$2.05
Oil (Brent)	\$19.22	\$0.60

Today's Events: JPN Loading Diffusion Index, Sept. EUR Prelim, HICP, Oct.	Actual	Consensus Expectation	Previous Period
JPN Loading Diffusion Index, Sept.	37.5	37.5	50.0 (was 55.6)
EUR Prelim, HICP, Oct.	+2.4% y/y	+2.4% y/y	+2.5% y/y
UK PMI Services, Oct.	46.3	46.0	48.1
UK Industrial Production, Sept.	-1.2% m/m	-0.5% m/m	+1.0% m/m
US Non-manufacturing NAPM, Oct.	10 AM	47.0	50.2

For Internal Use Only

Jim Sharer 11/5/01 8:08 AM

GLOBAL FINANCIAL MARKETS 11/5/01 7:45 AM

		5	Nov		4-New			5-New	Eriday's ele	190	This week		This year
SPERFORMANCE	V . 2 S No. 846	SPANSI	Sec. 16	(E. SIP)	SWIES HIS	Marine Co.	ghi John	400mm	Divisio W	44	0.001000	966	Analysis Spine
Yes		1	22.66		121.74			0.28%	121.74		0.28%		-6.7176
Euro		0	9956		0.5030			0.82%	0,9030		0.82%		48,9956
Sterling		1	4534		1.4629			0.65%	1,4629	,	0.65%		-2,4459
Swiss		1	6431		1.6258			0.82%	1.6198	ı	0.82%		-1.99%
Canadian S		1	5921		1.5912			0.05%	1,5912		0.05%		+6,20%
Australian S		E	9973		0.5088			0.30%	0.5066		0.30%		-9,22%
Karon was		- 1	291.0		1291.0			0.00%	1291.0		9,00%		-2.06%
Indonesian rupiah		1	0925		10675			2,34%	19675		2.34%		42,92%
Philippine pesa			1.95		51.95			0.00%	51.99		0.00%		-3.90%
Thai baht		4	4.67		44.73			-0.1259	44,73		-0.12%		-2.93%
Taiwan S		3	4.54		34.50			0.00%	34.50		0.00%		-1.17%
Polish aluty		4	.114		4.120			-4.1574	4,120		-0.15%		0.45%
Russian ruble			9.75		29,75			0.00%	29.75		0.00%		-4.25%
South African rand		9	622		9.528			0.99%	9,528		0.99%		-20,78%
Musican peso			.240		9.213			-0.36%	9,273		-0.36%		4.16%
Brazilian real		2	,646		2,672			-0.97%	2.672		-0.92%		-35,69%
COMMODITIES	127 10	- 11-130-11	P\$10 (4)	g - de	Termen	ON VIDE	واستويناها	-it - 18 s			245		- P48671
Gold		52	78.75		5279.95			-0.43%	\$279.95		49.43%		2,33%
European Brent		51	9.20		\$18.63			3,06%	\$18.63		3.06%		-14.97%
Near Nymes fatures			0.38		520.18			0.99%	520.18		8,99%		-23,5654
CRB Index			95.58		\$185,65			-8.04%	\$185.65		-8.04%		-18.54%
STORES EDETTIES		- Service	1000	in disa	-	SEASING	Section 1	FAMILIA O. I	AND AND THE	COMMON !		_	a thest
Days James			324		9,324	-		0.00%	9,324	-	0.00%		
Nustan			746		1,746			0.00%					-13.57%
5A P 500			087		1,087			0.00%	1,746		0.90%		-29,34%
Nikkei 225			448		10.384			0.60%	10,384		0.00%		-17.69%
Japan Topix			054		1,054			0.43%	1,054		0.61%		-34.21%
German DAX			692		4.583			2,38%	4.583		2,38%		-17.89%
French CAC-40			419		4,369			1.36%			M		-27.07%
U.K. FTSE-100			172		5,131			0.83%	4,369 5,130		0.83%		-25.27%
H.K. Hang Seng		- Company of the Comp	431	The state of the s	10,386			2,40%	10,186		2,40%		-16.8815
Korean Koopi			62		551			2,01%	551		2,01%		-30.90%
Taiwan Weighted			(6)		3,998			2.05%	1.996		2.05%		11,36%
Polish Wig			.571		13,440			-0.3614	13,640		-9,36%	_	-13,98% -23,98%
South African JSE			740		8,708			0.37%	8,788		0.37%		4.97%
Mesican Boba			633		5,433			0.00%	5,633		0.80%	-	40,4%
Brazilian Bovespa			388		11,388			0.00%	11,388		0.00%		-25,37%
Diamon sovega			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		11,500			4.5674	11,500		0.0074		-2007179
	Carino.	2527.	7510	are.	1.182.194	25000	3.9.9	Decree 1	94.04	picera	1000	825 O.	per de p
SAREHAD ATRICATED			.05		3.76	ø	3.85	-3	3.76		3.76	0	2.78
	2.48		400										
vernight rate	2.48 1.99	-	.01	0	3.49	-1	4.02	-17	3.39	-3	3.49	4	2.52
vernight rate month bill		-3 0		0	3.49	-3	6.02 6.04	-17	3.39 3.08	-3	3.49	-1	2.93
wornight rate month bill year bond year bond byear bond	1.99	-3 0 -3 0	.01	_									

US FIXED INCOME	Proof Family	Histor Panels	10-year congruenced	2-10 year UST spread	2-30 war UST agreed
Current	0.94	4.56	63	157	245
8ps change	unchanged	unchanged	2	1	0

EMERGING FIXED INCOME	Korea 768	Theiland '11	Independs 106	Ramia MinFin 97	Folund PD1	
Current Bps change	5.47 8 <u>Arzontina Par</u>	5.15 -18 Brazil C	EL68 modvanged Mexico Par	13.48 unchanged Veneroda DCS	7,96 -1	
Current	55.27	15.92	9.31	13.39		
Bps change	-232	-16	9	-31		

					Currence	ies			
	Unit Change (In local curaway)			Percent Change (In Dollars per Unit Terms)					
	5-100	2-Nov	5-Nor	2-Nav	This work	This month	This year	fn '80	In. '99
Japan	122.08	121.74	49,3%	0.2%	-0.3%	0.3%	-6.7%	-11.9%	11.3%
Suro	0.8956	0.9030	-0.8%	0.1%	-0.8%	-0.6%	-5.0%	-6.3%	-14.3%
Euro Yen	109,31	109.87	-0.5%	-0.2%	-0.5%	-0.9%	1.5%	4,4%	-22.3%
UK	1.4534	1.4629	-0.6%	-0.1%	-9.6%	-0.1%	-2.7%	-7.7%	-2.5%
Germany	2.6840	2.1660	-0.8%	0.1%	-0.8%	-0.6%	-5.3%	-6.8%	-13.8%
Augralia	0.5073	0.5088	-0.3%	-0.9%	-0.3%	0.9%	-9.2%	-14.9%	-0.5%
Canada	1.5921	1.5912	-0.1%	0.0%	-0.1%	-0.2%	-6.2%	-3.7%	-1.0%
Gold	278.75	279.95	-0.4%	0.3%	-0.4%	-0.3%	2.3%	-5.5%	-0.4%
Thailand	44.67	44,725	0.1%	0.0%	0.1%	0.1%	-2.9%	-15.7%	-2.3%
Indonesia	10,925	10675	-2.3%	-1.4%	-2.3%	4.3%	-12.9%	-38.5%	14,5%
Malaysia	3.80	3.80	0.055	0.0%	0.0%	0.0%	0.0%	0.0%	0.056
Philippines	51.95	51.95	0.059	0.0%	0.9%	0.055	-3.9%	-24.1%	-4.2%
South Korea	1,291	1291	0.0%	0.0%	0.0%	0.055	-2.1%	-01.4%	6.0%
Taiwan	34.50	34.50	0.0%	0.0%	0.0%	0.0%	-4.2%	-5.5%	2.7%
Singapore	1.8224	1.8241	0.1%	0.2%	0.1%	0.1%	-5.1%	-4.1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.6469	2.6720	1.0%	0.056	1.0%	1.9%	-35.7%	-8.0%	-33.1%
Mexico	9.2400	9.2730	0.4%	0.3%	0.4%	0.5%	4.2%	-1.4%	4,156
Chile	713,65	713.95	0.0%	0.0%	0.0%	0.0%	-24.4%	-8,3%	-10,7%
Colombia	2,310.50	2311.00	0.0%	0.0%	0.0%	4.1%	-3.3%	-19.3%	-17.3%
Venezuela	743.50	743.50	0.0%	0.0%	0.0%	0.1%	-6.3%	-7.8%	-13.0%
Peland	4.1137	4.1200	0.2%	-0.5%	0.2%	-0.6%	0.5%	0.1%	-15.1%
Hungary	283.18	282.43	-0.3%	0.0%	-0.3%	0.1%	-0.9%	-11.056	-14.5%
Czech	37,368	37.125	-0.7%	0.2%	-0.7%	-0.276	0.7%	-5.1%	-15.7%
Russia	29.754	29,754	0.0%	0.056	0.0%	-0.1%	-4.3%	-3.6%	-25.2%
South Africa	9.6223	9.5276	-1.0%	0.4%	-1.0%	-1.9%	-26.8%	-23.5%	-4.5%
Turkey	1,557,000	1.570,000	0.874	0.5%	0.8%	2.4%	-132,354	-23.6%	-41.9%
Greece	380.50	377.38	-0.8%	0.1%	-0.8%	-0.6%	-5.3%	-10.2%	-13,9%
			E	maities (In	Incal cure	encu faense			

			- I	quities (In	local curr	ency terms	,		
	Unit Ch	lange		Pertent Change					
	5-Nav	2-Nov	5-New	2-Nov	This sek	This mo	This pr	In '90	In '99
Date	9324	9324	0.0%	0.6%	0.056	2.7%	-13.6%	-6.2%	25.2%
Nasdug	1746	1746	0.0%	0.0%	0.055	3.3%	-29.3%	-39.3%	85.6%
Nikkei	10448	10384	0.6%	0.4%	0.6%	0.8%	-24.2%	-27.2%	36.8%
FT-SE 100	5172	5130	0.8%	1,1%	0.8%	2.6%	-16.9%	-10.2%	17.8%
DAX	4692	4583	2,4%	-1.1%	2.4%	2.9%	-27,1%	-7.5%	39.1%
C4C-48	4429	4369	1.4%	0.1%	1.4%	2.0%	-25,3%	-0.5%	51.1%
Thailand	273	274	-0.4%	0.2%	-0.4%	-0.8%	1.4%	-44.1%	35.4%
Indonesia	375	381	-1,4%	-0.4%	-1.4%	-2.2%	-9.9%	-38.5%	70.1%
Malaysia	593	597	-0.6%	0.1%	-9.6%	-1.2%	-12.8%	-16.3%	38.6%
Philippines	998	993	0.4%	0.0%	0.4%	0.4%	-33.3%	-36.3%	8.8%
Hong Kong	10431	10186	2,4%	0.3%	2.4%	3.5%	-30,9%	-11.0%	68.8%
South Korea	562	551	2.0%	1.2%	2.0%	4.4%	11.3%	-50.9%	82.8%
Taiwan	4081	3998	2.1%	1,8%	2.1%	4.5%	-14.0%	-43.9%	31.6%
Singapore	1340	1342	-0.1%	-0.4%	-0.174	-2.0%	-30.4%	-22.3%	78,05%
China	156	156.09	0.0%	0.9%	0.0%	-0.2%	74.2%	136.2%	32.0%
Brazil*	11388	11388	0.0%	0.0%	0.0%	0.2%	-25,4%	-10.7%	151,9%
Argentina*	223	223	0.0%	-2.8%	0.0%	-1.0%	-46.6%	-24,3%	28.0%
Mexico*	5633	5633	0.0%	0.4%	0.0%	1.7%	-0.3%	-20.7%	80.1%
Chile	103	103	0.0%	-0.6%	0.0%	-0.6%	6.7%	-32.6%	41.8%
Colombia	779	779	0.05%	-2.4%	0.0%	-4.354	9.3%	-28.6%	-9.3%
Venezuela	6770	6770	0.05%	1.6%	0.0%	1.2%	-0.8%	26.0%	14.8%
Peland	13591	13640	-0.4%	-0.7%	40.4%	-1.1%	-23.9%	-1.3%	41.3%
Hungary	6854	6773	1,2%	0.00%	1.2%	1.2%	-12,7%	-11.0%	39.8%
Czech	381	381	0.0%	0.7%	0.0%	1.6%	-20.3%	-2.3%	24,2%
Russia	209	204	2.7%	-0.3%	2.7%	2,4%	45.9%	-18.2%	197,4%
South Africa	8740	8708	0.4%	0.8%	0.4%	2.3%	5.0%	-2.5%	57.3%
Turkey	10169	10070	1.0%	4.5%	1.0%	3.3%	7.8%	-37.9%	485,4%
Greece	2573	2531	1.6%	-0.9%	1.6%	4.2%	-24.1%	-38.8%	102.2%

Equition begin tracing in Erazil, Argentine, and Mexico at 8:00 a.m., 8:00 a.m., and 8:30 a.m. Equitors time respectively.

From:

Sharer, James

Sent:

Thursday, November 01, 2001 5:16 PM

To:

DL Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager. Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 11/1/01

- U.S. equities rallied on strength in technology stocks.
- -- Treasury prices were mixed ahead of October employment data tomorrow.
- -- The dollar weakened against the major currencies in rather light dealings on a weak October NAPM report but set a record high vs. the Canadian dollar.

U.S. Markets

U.S. equity markets closed with strong gains in active trading, aided by strength in the technology issues and a substantial reduction in long-term U.S. interest rates. The Nasdaq was up 3.3%. Microsoft rose 6.4% to 61.84 on news of a settlement with the Justice Dept. Enron fell 13.7% to 11.99 on news of a formal SEC investigation. The best stock performers were semiconductor, software electrical equipment, oil, financial, computer and entertainment issues.

Treasury coupon prices were down 3/8 to up a full point in moderate trading, retreating from session highs on some profittaking. A rally in the U.S. stock market weighed on prices of short-term issues, while bond prices remained firm in continued response to the Treasury decision to halt long bond auctions. Analysts expect tomorrow's report on October nonfarm payroll employment will show a 325,000 increase, with the October unemployment rate rising to 5.2% from 4.9% in September. In WI trading the Treasury 5-year and 9 3/4-year notes were bid at 3.58% and 4.25%. Treasury announced it will auction on Monday \$16.0 billion 3-month and \$15 billion 6-month T-bills (an increase in size of \$1 billion each) to raise \$7.578 billion new cash. In WI trading the new bills were bid at 2.01% and 1.94%, respectively.

The November Federal funds futures contract was unchanged at 2.21%. The December and January contracts were also unchanged at 2.02% and 1.96%, respectively.

The December crude oil contract fell \$0.79 to \$20.39 a barrel. The December natural gas contract edged down\$0.01 to \$3.29 per million btu. Spot gold rose \$0.30 to \$279.70 an ounce.

Global Markets

The dollar depreciated 0.3% against the euro and was 0.4% weaker against the yen following news of a sharp decline in the October NAPM index. The Canadian dollar weakened 0.4% against the U.S. dollar to a record low of CS1,5994, on concern over sluggish economic growth in Canada

Latin American equity markets closed firmer, with the Merval index rising 1.9% and the Bolsa up 1.3%, bolstered by gains in the U.S. stock market. However, Argentine tax revenues in October dropped 11.3% to \$3.57 billion compared with the same month a year ago, which was much lower than anticipated. The tax data raised further questions over the country's zero deficit plan. In addition, the IMF poured cold water over the idea of an early disbursement of a \$1.3 billion December. loan. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 950 and 4000, respectively. Brazil's real firmed 0.9% as investors waited for Argentina's financial plan to emerge.

The EMBI+ spread widened 20 bps to 1093 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+146 to 2308), Brazil (+30 to 1193) and Mexico (+4 to 416). The Turkey sub-index edged down 8 bps to 937 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
EUR Manufacturing PMI, Oct.		45.9	45.0
GER PMI, Oct.		44.3	45.1
US Nonfarm Payroll Employment, Oct.	8:30 AM	-325,000	-199,000
US Factory Orders, Sept.	10 AM	-5.0%	unch



Closing Global Financial Markets

November 1, 2001

Treasury Market Analysis Unit, 622-2650

- U.S. equities rallied on strength in technology stocks.
- -- Treasury prices were mixed ahead of October employment data tomorrow.
- The dollar weakened against the major currencies in rather light dealings on a weak October NAPM report but set a record high vs. the Canadian dollar.

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Treasury coupon prices were down 3/8 to up a full point in moderate trading, retreating from session highs on some profit-taking. A rally in the U.S. stock market weighed on prices of short-term issues, while bond prices remained firm in continued response to the Treasury decision to half long bond auctions. Analysts expect temorrow's report on October nonfarm payroll employment will show a 35,000 increase, with the October unemployment rate rising to 5.2% from 4.9% in September. In Will trading the Treasury 5-year and 9.3/4-year notes were bid at 3.58% and 4.25%. Treasury announced it will auction on Monday \$16.0 billion 3-month and \$15 billion 6-month T-bills (an increase in size of \$1 billion each) to raise \$7.578 billion new cash. In Will trading the new bills were bid at 2.01% and 1.94%, respectively.

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Equities	4:15 PM	Change
DITA	9,264	2.48%
Nasdaq	1,746	3.32%
S&P 500	1,084	2,39%
Wilshire Tot Mict	9,986	2.66%
DITA Vol.	213,557,400	
Caradian TSE	6,985	1.44%
Maxican Bolsa	5,611	1.33%
Beazilian Bovespa	11,388	0.20%
German Dax	4,636	1.69%
Franch CAC-40	4,367	0.59%
U.K. FTSE	5,071	0.6369
Nikkei-225	10,347	0.00%

U.S. Treasuries	4:15 PM	Change bps
I-month bill	2.13%	0
3-mouth bill	2.05%	1
6-month bill	1.99%	3
3-year	2.49%	6
S-year	3.53%	6
10-year	4.25%	0
30-year	4.81%	-6

Money Markets	4:15 PM	Change bps
Overnight rate	2.75%	unchunged
December Fed		
Funds contract imp	1.97%	unchanged
yid		

USD versus		4:15 PM	Change
Лараневе уев.		121.96	-0.3826
Euro	S	0.9025	-0.29%
Storling	s	1.4627	-0.39%
Swiss franc		1.6307	-0.19%
Carodian dollar		1.5954	0.43%
Mexican pess		9.29	0.11%
Bearilian real		2.672	-0.56%

Change
-0.48855
-0.27%

Commodities	4:15 PM	Change
Gold	\$279.70	50.30
Oil (Beent)	\$19.39	-S0.23
Near-dated NYMEX		
contract	\$20.39	-80.79

				=
Tomorrow's Events:	Time	Consensus Expectation	Previous Period	
EUR Manufacturing PMI, Oct.		45.9	45.0	
GER PMI, Oct.		44.3	45.1	
US Nonfarm Payroll Employment,	Oct. 8:30 AM	-325,000	-199,000	
US Factory Orders, Sept.	10 AM	-5.0%	unch	

Drafted by: Jim Sharer 11/1/01 5:12 PM

For Internal Use Only

GLOBAL FINANCIAL MARKETS 11/1/01 4:15 PM

		1-Nov	31-Oct			1-79ex	Fridge's close	This receiv	This year
SPERFORMANCE	10,000,000	Acceptable of	disease with the same	44664753	EUR ES	NOT THE OWNER.	建加热性	SAN REPORTED IN	2.15を実施的です。
Yes		121.99	122.4	5		-0.38%	122.70	-0.58%	-6.63%
Euro		0.2029	0.900	7		-0.25%	0.8932	-1.48%	-4.21%
Storling		1.4632	1,454	8		-0.57%	1.4364	-1.83%	-2,00%
Swiss		1,6396	1.634	i)		-0.21%	1.4512	-1.25%	-1.21%
Carradian S		1,5957	1.588	5		0.45%	1,5765	1.22%	-6.44%
Australian S		4.5088	0.503	09		+8.14%	0.5027	-1.20%	-8,95%
Korean won		1291.0	1291	D.		0.80%	1294.5	-0.27%	-1.06%
Indonesian ropiah		10525	1047			0.4874	10260	2.58%	-6.79%
Philippine peso		51.98	51.5			0.05%	52.05	-4.14%	-3.99%
Thai baht		44,73	44.7			0.04%	44.88	-4.33%	-3.98%
Taiwan S		34.50	34.5			0.00%	34,52	-0.06%	-4.17%
Polish zloty		4,100	4.65			0.24%	4.091	0.21%	0.79%
Russian ruble		29.75	29.1			0.10%	29.71	0.13%	-1.24%
South African rand		9.543	9.44			1.05%	9.366	1.89%	+25.73%
Mexican pero		9,295	9.28	_		0.11%	9.237	0.63%	3,59%
Brazilian reál		2.673	2.69	6		-0.85%	2.724	-1.87%	-87.66%
COMMODITIES	110-55	di ingata a	e ja mijorikija	14 15 14	PE HOLEY	rigida est	and the second		Party Dr.
Geld		5279.95	\$279.55			0.14%	5277.40	0,92%	2,77%
European Brent		\$19.39	\$19.63			-1.22%	\$20.31	-4.53%	-14.13%
Near Nymex fatness		\$20,45	\$21.14			-3.26%	\$22,03	-7,17%	-23,69%
CRB ludes		\$186.70	\$185.66			0.56%	\$184,49	1.30%	-18.05%
SERVICE FORTIES		e e specialis	alia - de altituda	or ikelogio	gligi such	editorial es	AGMET CAN	GREAT SELECTION	in deligning of
Dow Jones		9,264	9,075			2.66%	9,545	-2.95%	-04.12*4
Number		1,746	1,690			3.32%	1,769	-1.28%	-29,31%
5AP 500		1,084	1,060			2.29%	1,105	-1.86%	-17.89%
Nikikei 225		10,347	10,266			-0.08%	10,795	-4.15%	-24,84%
Japan Topix		1,056	1,058			-0.33%	1,101	-4.12%	-17,79%
German DAX		4,636	4,558			1.69%	4,820	-3.82%	427.5456
French CAC-40		4,367	4.341			0.59%	4,479	2.49%	-26.31%
U.K. FTSE-100		5,071	5,848			0.65%	5,189	-2.26%	-18,50%
H.K. Hang Seng		10,159	10,074			0.84%	10,405	-2.36%	-32,78%
Korean Kospi		544	538			1.17%	543	0.13%	7,82%
Taiwan Weighted		3,930	3,963			0.67%	4,844	-1.81%	-17.19%
Polish Wig		13,736	13,736			0.00%	13,895	-1.14%	-23.04%
South African JSE		8.635	8,543			1.07%	8,574	9.71%	3,70%
Mexican Boha		5,611	5,537			1.33%	5,693	-1.45%	-0.73%
Brazilian Bovespa		11,588	11,365			0.20%	11,281	-3.3314	-25,37%
291000011000000	IN MERCHANISM	O STATE OF THE PARTY OF THE PAR	DESCRIPTION OF THE PARTY OF THE	11 20 110 110	Enastr	CONTRACTOR OF	THE CONTRACTOR	nated and the second of	Sie au Laurina
		0.01			3.88				
vernight rate enouth bill	2.52 -11 2.65 1	0.04	0 3,77 0 3,51		4.14	0		-7 3.77 -2 3.51	-Y 2.75
year bond	2.49 12	9.12	9 3.51			-1			-1 2.36
		9.12			4.10				6 2.99
year band	3.53 6				4.47	7.		.9 3.79	-9 4.20
D-year bond D-year bond	4.25 0	1.31	-2 4.5		4.43	-11		12 4.61	-11 4.94
A-VEST BEST S	4.81 -6	2.46	-2 4.81	-19	4.19	-13	4.89	21 5.17	-19 5.52

US FIXED INCOME	Z-rear Family	10-year Family	je var man sarset	2-10 year UST special	2-10 year EST opered
Current	0.00	4.69	60	175	232
Bps change	unchanged	-16	.9	-11	-18

EMERGING FIXED INCOME	Keren 708	Theiland 'II,	Indoorsia 716	Russia MinFin '97	Folund PD1	
Current Bps change	5.56 2 <u>Argentina Pac</u>	5,39 -15 <u>Brazil C</u>	11.48 unchanged Mexico Par	13.53 unchanged Yenezuela DCB	7.07 D	
Current	52.50	16,16	9.35	13.44		
Bjøs change	823	15	-21	*		

	1				Currenci	les				
	Unit Change (In									
	terms) -			Percent Change (In Dollars per Unit Terms) -						
	I-Nov	31-0ct	$I-N_{DV}$	<u>31-0:1</u>	This more	This mouth	This year	Lu *80	In '99	
Jupan	121.99	122.45	0,4%	-0.4%	0.6%	0.4%	-6.6%	-11.9%	11.3%	
Euro	0.9029	0.9007	0.256	-0.4%	1.1%	0.2%	-4.2%	-6.3%	-14,3%	
EuroYen	110.15	110.27	-0.1%	-0.1%	0.4%	-0.1%	2.3%	4,4%	-22.3%	
UK	1.4632	1.4548	0.6%	0.2%	1.9%	0.6%	-2.0%	-7,7%	-2.5%	
Germany	2.1662	2.1716	0.3%	-0.4%	1.1%	0.3%	-4.4%	-6,8%	-13.8%	
Australia	0.5088	0.5030	1.2%	-0.9%	1.2%	1.2%	-8.9%	-14.9%	-0.5%	
Canada	1.5957	1.5885	-0.5%	0.0%	-1.2%	-0.5%	-6.4%	-3.7%	-1.0%	
Gold	279.95	279.55	0.1%	0.3%	0.956	0.1%	2.8%	-5.5%	-0.4%	
Thailand	44.73	44,71	0.0%	0.056	0.3%	0.0%	-3.1%	-15.7%	-2.3%	
Indonesia	10,525	10475	-0.5%	-0.7%	-2.6%	-0.5%	-8.8%	-38.5%	14.5%	
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.056	
Philippines	51.98	51.95	0.0%	0.0%	0.1%	0.0%	-4.055	-24.1%	4.2%	
South Korea	1,291	1291	0.05%	0.2%	0.3%	0.0%	-2.1%	-11.4%	6.0%	
Taiwan	34,50	34.50	0.059	0.0%	0.1%	0.029	-4.2%	-5.5%	2,7%	
Singapore	1.8285	1.8235	-0.3%	0.0%	-0.1%	-0.3%	-5.5%	-4.1%	-1.0%	
China	8.28	8.28	0.05%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Brazil	2.6730	2.6960	0.9%	1.0%	1,9%	0.956	-37.1%	-8.9%	-33.1%	
Mexico	9.2950	9.2850	-0.1%	-0.4%	-0.6%	-0.1%	3.6%	-1.4%	4.1%	
Chile	713.65	713.65	0.0%	0.4%	0.2%	0.0%	-24.4%	-8.3%	-10,7%	
Colorabia	2,310.75	2308.50	-0.1%	-0.1%	0.2%	-0.1%	-3.3%	-19,3%	-17,3%	
Verozzuela.	743.70	743.90	0.0%	0.0%	0.0%	0.0%	-6.3%	-7.8%	-13.0%	
Poland	4.1000	4.0900	-0.2%	0.4%	-0.2%	-0.2%	0.8%	0.1%	-15.1%	
Hungary	282,14	283,33	0.4%	0.0%	0.4%	0.4%	-0.5%	-11.0%	-14.5%	
Ceech	37.184	37,308	0.3%	-0.3%	1.4%	0.3%	1.2%	-5.1%	-15.7%	
Russia	29,750	29.719	-0.1%	-0.1%	-0.1%	46.1%	-4.2%	-3.6%	-25.2%	
South Africa	9.5426	9.4436	-1,0%	0.4%	-1.9%	-1.0%	-25.7%	-23.5%	-4.5%	
Turkey	1,578,000	1,595,000	1.1%	0.0%	2.0%	1.1%	-135.4%	-23,6%	-41.9%	
Greece	377.40	378.34	0.2%	-0.4%	1.1%	0.2%	-4.4%	-10.2%	-13.9%	

	Equities (In local currency terms)								
	Unit Change Percent Change								
	1-Nov	31-0ct	I-Nav	31-0ct	This wk	This me	Dily 17	In '80	In '99
Dave	9264	9075	2.1%	-0.5%	-2,956	2.1%	-14.1%	-6.2%	25,2%
Nasdaq	1746	1690	3.3%	1,4%	-1.3%	3.3%	-29.3%	-39.3%	85.6%
Nikkei	10347	10366	-0.2%	-1.4%	-4.1%	-0.2%	-24,9%	-27.2%	36.8%
FT-SE 198	5071	5040	0.6%	0.7%	-2.3%	0.6%	-18.5%	-10.2%	17.8%
DAX	4636	4559	1.7%	0.3%	-3.8%	1.7%	-27,9%	-7.5%	39,1%
C4C-49	4367	4341	0.6%	2.1%	-2.5%	0.6%	-26,3%	-0.5%	51,154
Thailand	274	275	-0.5%	0.5%	-2.5%	-0.5%	1.7%	-44.1%	35.4%
Indonesia	382	384	-0.5%	1.4%	-1.5%	-0.5%	-8.2%	-38.5%	70,1%
Malaysia	596	600	-0.7%	-0.5%	-2.7%	-0.7%	-12.3%	-16.3%	38.6%
Philippines	993	993	0.0%	-0.2%	-0.9%	0.056	-33.5%	-30.3%	8.8%
Hong Kong	10159	10074	0.8%	0.0%	-2,4%	0.854	-32.7%	-11.0%	68.8%
South Korea	544	538	1.2%	0.7%	0.15%	1.2%	7.8%	-50.9%	82.8%
Taisean	3930	3903	0.7%	-0.3%	-2.8%	0.7%	-17.2%	-43.9%	31.6%
Singapore	1348	1368	-1.5%	-1.1%	-4.5%	-1.5%	-30.1%	-22,3%	78,959
China	1.58	156.35	0.7%	0.8%	0.9%	0.7%	75.9%	136.2%	32.0%
Brazil*	11388	11365	0.2%	3.1%	-3.3%	0.2%	-25.4%	-10.7%	151.9%
Argentina*	229	225	1.9%	0.5%	-4.756	1.9%	45,0%	-24.3%	28.0%
Mexico*	5611	5537	1.3%	0.1%	-1.4%	1.3%	-0.7%	-20.7%	80.1%
Chile	103	103	0.0%	0.3%	-1.3%	0.0%	7.3%	-32,6%	41.8%
Colombia.	798	814	~2.0%	-0.4%	-1.9%	-2.0%	12,4%	-28.6%	-9.3%
Venezucia	6660	6689	-0.4%	0.8%	-0.5%	-0.4%	-2,4%	26.0%	14.8%
Poland	13736	13736	0.0%	0.3%	-1.1%	0.0%	-23.0%	-1.3%	41.3%
Hangary	6773	6773	0.0%	1.3%	-0.5%	0.0%	-13,7%	-11.0%	39.8%
Czech	379	375	0.9%	0.8%	0.5%	9.9%	-20.9%	-2.3%	24.2%
Russia	204	204	0.0%	-0.3%	2.5%	0.059	42.5%	-18.2%	197.4%
South Africa	8635	8543	1.1%	0.4%	0.7%	1.1%	3.7%	-2.5%	57.3%
Turkey	9635	9849	-2.2%	-0.7%	-2.8%	-2.2%	2.1%	-37,9%	485.4%
Greece	2555	2468	3.5%	3.6%	7.8%	3.5%	-24,6%	-38.8%	102.2%

^{*} Equition begin tracing in Strash, Argentina, and Mexico at 3.00 a.m., 9.00 a.m., and 9.30 a.m. Eastern time respectively.

From:

Cetina, Jill

Sent:

Thursday, November 01, 2001 12:45 PM

To:

DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Market Noon Report -- Nov 1 -- Fixed income still the focus

- NAPM weak; Treasury curve flattens further; equities higher; dollar retraces
- -- Argentine asset prices move lower still while Brazil continues to decouple

U.S. Markets

Treasuries: Prices are mixed as the curve continues to flutten with the 30-year bond gaining over 2 1/4 points while the price of the 2-year note is down modestly in active trading. The 10-year has benefitted as well with the yield falling 13 bps to 4.11%, a level not seen since the early 60s. Weaker-than-expected NAPM data bolstered the bond while dealers noted positioning is likely to contribute to further gains in the bond. Several dealers noted most accounts were positioned with curve steepening trades on ahead of yesterday's announcement, thany of them leveraged. Thus, the bond's rally has been a painful move for these accounts and triggered an unwinding of these positions, further bolstering the bond. Some corporate bond desks were reportedly also short the bond as a hedge. Gains in stocks and reallocation trades weighed on the 2-year note. Today several Treasury market contacts and corporate bond dealers noted they thought the Dept. is understating the value to U.S. fixed income markets of having a risk-free 30-year benchmark. (JCetina 2-2017)

U.S. equities are higher in moderate volume, aided by strength in tech issues. Microsoft rose 4.0% to \$(4).50 following news of a tentorive settlement with the Justice Dept. Enron fell 9.7% to 12.55 on news of a formal SEC investigation of the firm. (JSharer 2-2042)

Global Markets

Fx: The dollar extended its losses following the release of NAPM, weakening to Y121.30 and \$0.9120, but has since largely retraced though the dollar remains weaker on the day. Dealers noted interest to sell euro/yen by European real money accounts as well as a parring back by speculative accounts of short dollar positions against the euro as factors in the dollar's post-NAPM retracement. Some dealers noted position squaring ahead of tomorrow's employment report. (JCetina 2-2017)

Latin America: Comments by the IMF and a breakdown in talks between the federal government and governors pushed prices of Argentine bonds lower. The 08' is down 2.1/4 points. Some dealers report JP Morgan's Argie EMBH sub-component is not updating properly, noting they believe the spread could be even wider than the reported 150 bps widening to 2313 bps. Overnight peso rates rose further, reaching 125% as talk of deposit withdrawals continues to circulate. In Oct, M3 reportedly declined by 2.98 billion pesos. Mid-morning the IMF stated it is not considering accelerating the Dec disbursement as is not party to debt restructuring talks. BA Governor Ruckauf reportedly stated he would take President de la Rua to court to sue for past-due coparticipation payments and threatened to seize federal assets in the province after the province reportedly nearly missed a Eurobond payment yesterday. Oct tax revenue data touight are expected to be poor. Despite weakness in Argie bonds, Brazil's C bond is holding up well, down only 1/3 of a point. (JCeting 2-2017)

Europe: European bourses closed 0.6% to 0.9% higher on advances in drug and technology issues. German bund yields dropped 1 to 18 bps, bolstered by news of a halt in U.S. long bond auctions and in response to a drop in the Oct U.S. NAPM index. In similar fashion, U.K. gilt yields were down 2 to 10 bps. (JSharer 2-2042)

Commodities: Our contacts acknowledge better compliance with production limits within OPEC in recent weeks, but note overproduction remains in the range of 800,000 bpd (down from 1.3 million). Consequently, they remain unimpressed with OPEC's Rodriguez's statements predicting a cut of 1 million bpd starting Jan 1. Front-month Brent and Nymex futures contracts are trading a few cents higher, but dealers remain skeptical given weak demand, a very large build in U.S. stocks shown yesterday in DOE figures relative to API's, and unsuccessful efforts to effect cooperation from non-OPEC producers. (KByrne, 2-2054)

Today's Events:	Actual	Previous Period	Consensus
Expectation			
U.S. initial claims, week ending 10/27	499,000	-8,000 to 504,000	-4.000 to 5.0,000
U.S. personal income. Sept.	unchanged	revised to 0.1% from unchanged	0.1%a
U.S. NAPM, Oct	39.8	47.0	44.0

U.S. NAPM Prices Paid, Oct.

32.5

34.5

36.3

01/17/2002

Noon Global Financial Markets

NAPM weak; Treasury curve flattens further; equities higher; dollar retraces
 Argentine asset prices move lower still while Brazil continues to decouple

U.S. Markets Treasuries: Prices are mixed as the curve continues to flutten with the bond gaining over 2 1/4 points while the price of the 2-year note is down modestly in active trading. The 10-year has benefitted as well with the yield falling 13 bps to 4.11%, a level not seen since the early 60s. Weaker-than-expected NAPM data bolstered the bond while dealers noted positioning is likely to contribute to further gains in the bond. Several dealers noted most accounts were positioned with curve steepening trades on ahead of yesterday's announcement, many of them leveraged. Thus, the bond's rally has been a painful move for these accounts and triggered at unwinding of these positions, further bolstering the bond. Some corporate bond desks were reportedly also short the bond as a hedge. Gains in stocks and reallocation trades weighed on the 2-year note. Today several Treasury market contacts and corporate bond dealers noted they thought the Dept. is understaining the value to U.S. fixed income markets of having a risk-free 30-year benchmark. (JCctina 2-2017)

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Equities	12:42 PM	Clones
DITA	9,179	1.54%
Nusdag	1,716	1.53%
5&P 500	1,072	3.17%
Wilshire Tot Mkt.	9,691	0.00%
DJIA Vol.	125,172,700	
Canadian TSE	6.899	0.19%
Mexican Bolso	5,567	0.54%
Brazilian Boverpa	13,316	-0.45%
George Divy	4.619	1.000

4.367

5,071

0.5%

0.53%

French CAC-40

J.K. FTSS

U.S. Treasuries	12:42 PM	Change bus
I-month bill	2.13%	-1
3-ments bill	2.64%	1
6-meets bill	1.97%	1
2-year	2.48%	5
5-year	3.47%	4
10-year	4.11%	-14
M-year	4.67%	-20

Money Markets	12:42 PM	Change bus
Overnight rase	2.56%	-0
December Fed Funds contract imp yield	1.96%	-1

USD performance	XX.	12:32 PM	Change
Napanese you		121.86	-0.4x1.
Euro	5	0.9432	-0.37%
Storling	5	1.4632	-0.6.7%
Swits Dane		1.6298	-0.22*1
Constitut deltar		1.5913	0.17%
Мохісая реза-		9.276	-BUM*4
Brazilian roal		2.684	-0.41%

Other cross rates	12:42 PM	Change
Duro/yen	110.07	-0.05%
Euro(storting:	0.6171	-0.22%

Commodities	12:42 PM	Charge
Geld	\$2.79.50	50.20
Oil (Breiri)	\$19.39	-94.27
Neur-dated NYMEX flatures contract	528.90	-90.25

a					
l	Today's Events: U.S. initial claims, week anding 10/27	Actus!	Previous Period	Consensus Expectation	
I	U.S. initial claims, week anding 10/27	499,000	+8,000 to 504,000	-4,000 to 500,000	
	U.S. personal income, Sept	unchanged	revised to 0.1% from unchanged	0.1%	
	U.S. NAPM, Oct	39.8	47.0	44.0	
ı	U.S. NAPM Prices Paid, Oct.	32.5	34.5	36.3	
u					

For Internal Use Only

Draffed by: Jill Cetina 11/1/01 12:42 PM

GLOBAL FINANCIAL MARKETS 11/1/01 12:00 PM

		1-Neg		31-Oct			1-Nov	Friday's close	This week	s	This year
SPERFORMANCE	10000	100.000年10.000年		neigh he indige.	odnijs:	Kirky rajo	のと考えなが	HARMAN AND HORS	San Bridge Co.	100	Mary Stant Lo
You		121,84		122.45			-0.50%	122.76	-0.79	76	-6.98%
Euro		0.9043		0.9007			-0.38%	4.8932	-1.21	%	-4,6975
Sterling		1.4625		1.4548			-0.53%	1.4364	-1.78	74	-1.05%
Swine		1.627)		1.6340			-0.39%	1.6512	-1.43	%	-1.02%
Canadian S		1.5812		1.5885			0.17%	1.8765	0.93	%	-6.14%
Australian S		0.5888		0.5030			-6.14%	0.5027	+1.20	%	-8.99%
Kurusa waa		1291.0		1291.0			0.00%	1294.5	-0.27	%	-2.66%
Indonesian rupiah		10525		10475			0.48%	18268	2.58	56	-8.79%
Philippine pess		51.58		\$1.95			0.05%	52,05	-0.14	56	-3.95%
Thai baht		44.74		44.71			0.07%	44.88	-0.31	%	-3,6914
Triwan 5	-	34.50		34.50			0.00%	34.52	-0.06	94	4,12%
Polish ztoty		4.088		4.090			-0.06%	4.091	-0.09	%	1.09%
Russian ruble		29.77		29.72			0.17%	29.71	0.201		431%
South African rand Mexican pess		9,527		9,444			0.88%	9,366	1.721		45.52%
Braziline reili		9,185		9.285			0.00%	9.237	0.521		3.69%
HTME COM PERM		2,685		2.696			-0.43%	2.724	-1.455	96	437,67%
COMMODITIES		S restroyed	i we	- Stagen	CT (SC)	CKI CHI	1 1 1 2 may 0		4.95.71.		
Gold		\$280.15		\$279.55			0.21%	5277.40	0.995	%	2,85%
European Brant		\$19.61		519.63			-0.10%	525.31	-3.45%	No.	-13.15%
Near Nymus fatures		\$21.67		\$21.34			-0.33%	522.03	-4.365	N.	-21,38%
CRB Index		5186.79		\$185.66			0.61%	5184.49	1.255	6	-18.01%
entitle BOUTTES	- compa	or his feet was	0.1000	- VARIABLE	HOS!	K\$4,7960	militari e-	-marketations	開発を		nenoke no
Dow Jones		9,142		9,075			0.23%	9,545	-4.235	6	-15.25%
Nasslag		1,713		1,690			1.36%	1,769	-3.15%		-30.66%
S&F 500		1,669		1,060			0.85%	1,105	-3.245		-19/05%
Nikkei 225		10,347		10,366			-0.18%	10,795	-4.155	4	-24,94%
Ларин Торік		1,056		1.059			-0.33%	1,101	4.125	4	-17.75%
German DAX		4,591		4,559			0.70%	4,820	-4.75%	4	-28.64%
French CAC-40		4,367		4,341.			0.59%	4,479	-2,49%	6	-26.31%
U.K. FTSE-100		5,071		5,040			0.63%	5,189	-2.26%	i.	-18,50%
H.K. Hang Seeg		10,159		10,074			0.84%	10,405	-2.36%		-32,76%
Korean Koapi		544		538			1.37%	543	0.13%	•	7.62%
Taiwan Weighted		3,994		1,903			0.67%	4,044	-2.82%		-17.08%
Polish Wig South African JSE		13,736		13,736			0.00%	13,895	-1.14%		-13.04%
Mexican Boiga		8,635		8,543			1.07%	8,574	0.71%		3,70%
Brazilian Husespa		5,567		5,537			0.55%	5,693	-2.21%	_	-1.50%
aransan nisespa		11,263		11,365	-		-0.90%	11,781	-4,40%		-26.19%
	USE COLUMN	and another	3500A	THE COURSE	577.65	1 a raines	200 TO SHE	MINISTER OF STREET		ne namedia	ar and see see
School of the Confession of the		-11 0.44	0	3.84	4	3.58	0		0 3.84		2.75
hid on a standard regulation.				3.51	-6	4.14	-2	3.42	-2 3.51	-1	2,34
versight rate month bill	2.04	0 0.41									
vernight rate executs bill your bend	2.04	9 0.12		3.10	-3	4.18	-5	3.13	-2 3.24	-5	2.91
	2.04 2.47 3.48			3.10 3.69 4.26	-3 -4 -11	4.18 4.48 4.44	-5 -7	0.000	-2 3.24 -8 3.81	-5	4.10

00 4.62			
4.02	59	166	223
nd -23	-10	-21	-27
	rd -21	ed -23 -10	rd -21 -19 -21

EMERGING FIXED INCOME	Karea 708	Theiland '11	Indonesta '86	Russia MinFia '07	Poland PD1	 1
Current Bys-change	5.56 2 Aracetina Par	5.39 -15 Beadl C	11.08 unchanged <u>Musico Par</u>	13.51 unchanged Venezach DCB	7.05 -1	
Current	49.63	16.14	9.67	13.30		J
Bps change	496	13	13	=7		
						 _

					Currenci	ies			
	Cair Change (In			- Perc	ent Chamaa	(In Dollars	non Kinda Ti	name h	
	I-Nov	31-Oct	L-Net	31-0ct	This week	This wouth	This year	Lu '89	In '99
							This rear	THE SEC	20 79
Japan.	121.84	122,45	0.5%	-0.4%	0.7%	0.5%	-6.5%	-11,9%	11.3%
Euro	0.9041	0.9007	0.4%	-0.4%	1.2%	0.4%	-4.1%	-6.3%	-14.3%
EuroYen	110.22	110,27	0.02%	-0.1%	0.5%	9,0%	2.3%	4,4%	-22,3%
UK.	1.4625	1.4548	0.5%	0.2%	1.8%	0.5%	-2.0%	-7,7%	-1.5%
Germany	2.1621	2.1716	0.4%	-0.4%	1.3%	0.4%	-4.2%	-6.8%	-13.8%
Australia	0.5088	0.5030	1.2%	-0.9%	1,2%	1,2%	-8.9%	-14.9%	-0.5%
Canada	1.5912	1.5885	-0.2%	0.0%	-0.9%	-0.2%	-6.1%	-3.7%	-1.0%
Gold	280.15	279.55	0.2%	0.3%	1.4%	0.2%	2.8%	-5.5%	-0.4%
Thailand	44.74	44.71	-0.1%	0.0%	0.3%	-0.1%	-3.1%	-15.7%	-2.3%
Indonesia	10,525	10475	-0.5%	-0.7%	-2.6%	-0.5%	8.8%	-38.5%	14.5%
Malaysia	3.80	3.80	0.0%	0.05%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	51.98	51.95	0.0%	0.0%	0.1%	0.0%	-4,0%	-24,1%	-4.2%
South Korea	1,291	1291	0.0%	0.256	0.3%	0.0%	-2.1%	-11,4%	6.0%
Taiwan	34.50	34.50	0.0%	0.056	0.1%	0.0%	-4.2%	-5.5%	2,7%
Singapore	1.8286	1.8235	-0.3%	0.0%	-0.1%	-0.32%	-5.5%	-4,1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brazil	2.6845	2.6960	0.4%	1.0%	1.5%	0.4%	-37.7%	-8.0%	-33.1%
Mexico	9.2850	9.2850	0.0%	-0.4%	4.5%	0.455	3.7%	-1.4%	4.1%
Chile	713.65	713.45	0.0%	0.4%	0.2%	0.0%	-24.4%	-8.3%	-10.7%
Colombia	2,310.70	2308.50	-0.1%	-0.1%	0.2%	-0.1%	-3.3%	-19.3%	-17,3%
Venezuela	743.26	743.90	0.0%	0.0%	0.0%	0.1%	-6.3%	-7.8%	-13.0%
Poland	4,6675	4.0900	0.1%	0.4%	0.1%	0.1%	1.1%	0.1%	-15.1%
Hungary	281.85	283.33	0.5%	0.0%	0.5%	0.5%	49,4%	-11.0%	-14.5%
Czech	37.117	37,308	0.5%	-0.3%	1.5%	0.5%	1,4%	-5.1%	-15.7%
Russia	29.770	29.719	-0.2%	-0.1%	-0.2%	-0.2%	-4.3%	-3.6%	-25.2%
South Africa	9.5271	9.4436	-0.9%	0.4%	-1.7%	-0.9%	-25.5%	-23.5%	-4.5%
Turkey	1,578,000	1,595,000	1.1%	0.0%	2.0%	1.1%	-135,4%	-23.6%	-41.9%
Greece	376.69	378.34	0.4%	-0.4%	1.3%	0.4%	-4.2%	-10.2%	-13.9%

	Equities (In local currency terms)										
	Unit Cl	nange		Pc	reent Change						
	LNoe	31-0er	1-Nov	31-0cr	This wk	This mo	This pr	In '90	In '59		
Dow	9142	9075	0.7%	-0.5%	-4.294	0.7%	-15.3%	-6.2%	25,2%		
Nasdag	1713	1690	1,4%	1.4%	-3,2%	1.4%	-30.7%	-39.3%	85.6%		
Nikkei	10347	10366	-0.2%	-1.4%	-4.1%	-0.256	-24.9%	-27.2%	36.8%		
FT-SE 160	5071	5040	0.6%	0.7%	-2.3%	0.6%	-18,5%	-10.2%	17.8%		
DAX	4591	4559	0.7%	0.3%	4.8%	0.7%	-28.6%	-7.5%	39.1%		
C4C-40	4367	4341	0.6%	2.1%	-2.5%	0.6%	-26,3%	-0.5%	51.1%		
Thailand	274	275	-0.5%	0,5%	-2,5%	-0.5%	1,7%	-44.1%	35.4%		
Indonesia	382	384	-0.5%	1.4%	-1.5%	-0.5%	-8,2%	-38.5%	70.1%		
Malaysia	596	600	-0.7%	-0.5%	-2.7%	-0.7%	-12.3%	-16,3%	38.6%		
Philippines	993	993	0.0%	-0.2%	-0.9%	0.0%	-33,5%	-30.3%	8.8%		
Hong Kong	10159	10074	0.25%	0.0%	-2.4%	0.8%	-32,7%	-11.0%	68,8%		
South Korea	544	538	1.2%	0.7%	0.1%	1.2%	7.8%	-50,9%	87.8%		
Taiwan	3930	3903	0.7%	-0.3%	-2.8%	4.7%	-17.2%	-43,95%	31.6%		
Singapore	1348	1368	-1.5%	-1.1%	-4.5%	-1.5%	-30.1%	-22.3%	78.0%		
Chira	158	156.35	0.7%	0.8%	0.9%	0.7%	75.9%	136.2%	32.0%		
Brazil*	11263	11365	-0.9%	3.1%	-4,4%	4.9%	-26.2%	-10.7%	151.9%		
Argenting*	219	225	-2.4%	0.5%	-8.8%	-2.4%	47.4%	-24.3%	28.0%		
Mexico*	5567	5537	0.5%	0.1%	-2,2%	0.5%	-1.5%	-20.7%	80,1%		
Chile	103	193	0.0%	0.3%	-1.3%	0.056	7.3%	-32.6%	41.8%		
Colombia	814	814	0.0%	-0.4%	0.1%	0.0%	14.2%	-28.6%	-9.3%		
Venezuela	6672	6689	-0.2%	0.8%	-0.3%	-0.2%	-2.2%	26.0%	14.8%		
Poland.	13736	13736	0.0%	0.3%	-1.1%	0.0%	-23.0%	-1.3%	41.3%		
Hungary	6773	6773	0.0%	1.3%	-0.5%	0.0%	-13,7%	-11.0%	39.8%		
Czech.	379	375	0.9%	0.8%	0.5%	0.9%	-20.9%	-2.3%	24.2%		
Russia	204	294	0.055	-0.3%	2.5%	0.0%	42.5%	-18.2%	197,4%		
South Africa	8635	8543	1.1%	0.45%	0.7%	1.1%	3.7%	-2.5%	57.3%		
Turkey	9635	9849	-2.2%	-0.7%	-2.8%	-2.2%	2.1%	-37.9%	485,454		
Greece	2555	2468	3.5%	3,6%	7.8%	3.5%	-24.6%	-38.8%	102.2%		

Equities begin trading in Britist, Argentina, and Maxico at 8:00 a.m., 9:00 a.m., and 9:30 a.m. Esplain time respectively.

From:

Sharer, James

Sent:

Wednesday, October 31, 2001 5:03 PM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 10/31/01

- U.S. equities were mostly lower, given a contraction in 3QGDP.
- -- Treasury prices surged on news of a halt in long bond auctions.
- -- The dollar strengthened against the major currencies in light dealings.

U.S. Markets

U.S. equity markets closed mixed in heavy trading, following news this morning of a modest contraction in 3Q GDP. The Nasdaq index rose 1.3% today and was up 12.8% for the month, marking the first monthly gain since June (+2.4%). Enron Corp. rose 24.5% to 13.90, one day after falling to a 9-year low, on takeover talk. The worst stock performers were insurance, drug, health care, telephone and bank issues. The best stock performers were semiconductor, retail store, computer, communication equipment and natural gas issues.

Treasury coupon prices were up 1/8 to 4 1/8 points in very hectic trading. The surge in bond prices reflected news that Treasury will halt sales of both nominal and TIPs 30-year bonds. The yield on the Treasury 30-year bond fell as low as 4.82% this afternoon, a level not seen in decades. Treasury announced it will auction next week \$16.0 billion 5-year and \$7.0 billion 9 3/4-year 5% notes to raise \$1.412 billion new cash. In WI trading the notes were bid at 3.57% and 4.25%, respectively.

The November Federal funds futures contract rose 3 basis points to 2.21%, while the December and January contracts rose 3 bps and 1 bp to 2.02% and 1.96%, respectively.

The December crude oil contract fell \$0.69 to \$21.18 a barrel. The December natural gas contract rose \$0.11 to \$3.29 per million btu. Spot gold fell \$0.70 to \$279.40 an ounce.

Global Markets

The dollar appreciated 0.5% against the euro and was 0.4% firmer against the yen as the advance U.S. 3Q GDP report showed a more resilient economy than was anticipated. The dollar was 0.2% weaker against the British pound and 0.6% firmer against the Swiss franc.

Latin American equity markets closed slightly firmer, with the Bovespa climbing 3.1%. The Merval index edged up 0.5% as investors awaited further news of a debt swap. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 650 and 3550, respectively. Brazil's real firmed 1.0%, breaking beneath the BRL 2.70 mark for the first time since October 1, despite a postponed auction of the power utility Copel.

The EMBI+ spread widened 12 bps to 1086 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+49 to 2150), Mexico (+11 to 415) and Turkey (+20 to 926). The Brazil sub-index edged down 5 bps to 1184 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
UK PMI Manufacturing, Oct.		45.0	46.5
UK House Price Index, Oct.		-1.5% m/m	+2.7% m/m
US Initial Jobless Claims, wk ender	d 10/27 8:30 AM	-4,000	+8,000 to 504,000
US Personal Income, Sept.	8:30 AM	+0.1%	unch
US NAPM Index, Oct.	10 AM	44.0	47.0



Closing Global Financial Markets

October 31 25016

Treasury Market Andress

or extracted Curt 0575-500

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- -- Treasury prices surged on news of a halt in long bond auctions.
- -- The dollar strengthened against the major currencies in light dealings.

U.S. Markets

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Equities	4:10 PM	Change
DIIA	9,075	-0.51%
Naudaq	1,690	1,37%
S&P 500	1,060	0.00%
Wilahire Tot Mke	9,877	0.1956
Dila Vol.	167,113,400	
Carnadian TSE	6,886	0.68%
Mexican Bolsa	5,537	0.14%
Brazilian Bovenpa	11,365	3.09%
Gernari Dax	4,559	0.33%
French CAC-40	4,341	2.10%
U.K. FTSE	5,040	0.72%
Nikkoi-225	10,366	0.00%
SECRETARISM SERVICES	THE RESERVE OF THE PERSON NAMED IN	Committee of the Commit

U.S. Treasuries	4:10 PM	Change bps
I-month bill.	2.13%	6
3-mornh bill	2.04%	-1
6-month bill	1.96%	-3
2-yeur	2.40%	-5
S-year	3.49%	-10
10-year	4.26%	-1á
30-year	4.88%	-32

Money Markets	4:10 PM	Change bos
Overnight rate	2.69%	unchanged
December Fed		
Funds contract imp	2.0354	3
yld		

USD versus		4:10 PM	Change
Japanese yen		122.34	0.35%
Euro	5	0.8998	0.52%
Sterling	S	1.4547	-0.3%
Swiss franc		1.634	0.62%
Canadian dellar		1.5882	0.66%
Menican peso		9.267	0.23%
Brazilian real		2.695	-1.00%

4:10 PM	Change
110.09	-0.18°>
0.6183	-0.75%
	4:10 PM 110:09 0:6183

Commodities	4:10 PM	Change
Gold	5279.40	-\$4.70
Oil (Brest)	519.63	-50.77
Near-dated NYMEX		
contract	\$21.18	-\$11 n/d

				Brond Common Spinisher on Season Stranger
ı	Tomorrow's Events: UK PWI Manufacturing, Oct.	Time	Consensus Expectation	Previous Period
			45.0	46.5
ł	UK House Price Index, Oct.		-1.5% m/m	*2.7% m/m
ı	US Initial Jobiess Claims, wk ender	1 10/27 8:33 AM	-4,000	+8,000 to 504,000
	US Personal Income, Sept.	8:30 AM	+0.1%	unch
١	US NAPM Index, Oct.	10 AM	44.0	47.0

For Internal Use Only

Drafted by: Jim Sharer 10/31/01 4:59 PM

GLOBAL FINANCIAL MARKETS 10/31/01 4:15 PM

			21-04		30-Oct			31-Oct	Friday's clos	ż	This week		This year
SPERIFORMANCE	150,0488	9. 4 N	esterno.	40 O	SERVICE STATE	Projekti	American Co.	NO SHEET	AND DESCRIPTION	a late	BOND	1766	STATE OF THE PARTY.
Yen			122.41		121.97			0.36%	122,70		-0.24%		-7.0014
Euro			0.9997		0.9047			0.55%	0.8932		-0.73%		4.55%
Seeding			1.4549		1.4513			-0.25%	1.4364		-1.37%		-2.56%
Swiss			1.6351		1,6246			0.65%	1.6812		-0.98%		-1.45%
Canadian \$			1.5886		1.5783			0.45%	1.5765		0.77%		+5.97%
Australian S			0.5033		0.5046			0.26%	0.5027		4.12%		-9.90%
Korean wen			1291.0		1293.0			-0.15%	1294.5		-0.27%		-2.46%
Indonesian repiah			10475 51.95		10400 51.95			0.72%	10260 52.05		2.10%		-8.27%
Philippine pero Thai bubt			44.71		44.70			0.00%	44,88		-0.19% -0.38%		-3.98% -3.62%
Taiwan S			34.50		34.50			0.00%	34.52		-0.06%		-4,17%
Polish rlety		_	4.690		4.116		-	-8,39%	4,091		-0.03%		1.03%
Russian ruble			29.72		29.69			0.10%	19.71		0.03%		-0.13%
South African rand			9.445		9.415			0.31%	9,366		0.84%		-34,43%
Mexican peso			9.288		9,259			0.32%	9,237		0.46%		3.79%
Bruzilian reid			1.696		2.723			-8.99%	2.724		-1,03%		-38.26%
COMMODITIES	19,95 18	- ping	Adgin		nag paugata s	force (c	project (a Es	(A.50 a)	Same Total	10.0	10 m s		m - K
Gold			5279.65		\$290.50			-0.30%	\$277.40		0.81%		2,66%
European Brent			519.63		520.41			-3.8214	\$20.31		-3.35%		-13.06%
Near Nymex futures			\$21.14		\$21.79			-2.5814	\$22.03		-4,04%		-21.12%
CIRIS Index			\$185.66		\$185.68			-0.00%	5184.49		0.63%		-08.51%
FOUTIES	SHOP	ütlik	india:	4 0. (2)	McSimp	technological	or Dept	(a) Na 31.	Carle and	i, biologic	9690 + · · ·	- B134	Schlene
Dow James			9,075		9,122			-0.51%	9,545		-4.92%		-15.87%
Nandag			1,690		1,667			1.37%	1,769		-4.45%		-31,58%
SAP 500			1,060		1,060			0.00%	1,105		-4.86%		-19,73%
Nilderi 225			10,366		10,513			-1.39%	10,795		-3.97%		-24.90%
Japan Topis			1.659		1,068			-0.79%	1,101		-3.86%		-17,47%
German DAX French CAC-40			4,589		4,544			2,10%	4,820		-5.42% -3.47%		-19.14%
U.K. FTSE-106			5,640		5,064			0.72%	5,189		-2,87%		-26.75% -19.01%
H.K. Hang Seng		_	18,074		16.076			4.02%	10,405		-3,195	-	-1900055
Korean Koopi			538		534			0.74%	543		-1,03%		6.58%
Taiwan Weighted			3,943		3,516			46,31%	4,044		-3.46%		47.72%
Polish Wig			13,736		13,691			6.33%	13,895		-1.14%		-23.04%
South African JSE			8,543		8,546			0.44%	8,574		-0.36%		2.61%
Mesican Balsa			5,537		5,529			9.14%	5,693		-2.74%		-2.04%
Brazilian Bovespa			11,345		11,024			3.09%	11,781		-3.53%		-25,53%
OSE SELLINGUAL DE LA CONTRACTION DE LA	S SERVICE CO	MEST	- Dather	en en	(Stansing)	artes,	PERM	January I			he link	The Page	A SHIP OF
Overnight rate	2.63	3	0.05	0	3.84		3.88	-37	3.84	8	3.54		2.74
-month bill	2.64	-1	0.00	0	3.52	4	4.16	-6	3,44	3	3.52	÷	2.33
year hand	2,40	-5	0.12	D	3.13	i	4.15	-1	3.15	0	3.29	ï	2.92
year bond		-19	0.47	i	3.73	ä	4.54	-3	3.79	0	3.88	i	4.09
0-year board		-16	1.31	-2	4.37	-3	4.54	-3	4.51	-3	4.72	-2	4.87
0-year band	4.88	-32	2.49	4	4,99	-12	4.32	-8	5.10	-9	5.36	-9	5.32
IS FIXED INCOME		ear Fr	mic	H-nor	Farnik		10-year o	ean urread	Z-10 res	r UST	urcad :	-10 year	USTuprost
Surrent		0.80		4.55			68			185		24	

EMERGING STYLD INCOME	Keeca Vill	Theiland '11	Indonesia 96	Russia MiaFin '92	Feland PD1
Current Bps change	5.54 -9 Argentina Pag	9.54 -6 Brazil C	11.68 unchanged <u>Mexica Par</u>	13.47 unchanged Venezuela DCB	7.06
Current	44.65	15.97	9.58	13.36	
Bps change	620	-14	30	1	

					Currence	les				
		Delt Change (In local currency terms) Percent Change (In Dollars per Unit Terms)								
	31-0a	10-Oct	31-0ct	39-Oct	This work	This wouth	This year	In '89	In '99	
Japan	122.41	121.97	-0.4%	0.0%	0.2%	-2.4%	-7.0%	-11.9%	11.3%	
Euro	0.8997	0.9047	-0.5%	-0.1%	0.7%	-1.3%	4.6%	-6.3%	-14.3%	
Euro Ven.	110.12	110.33	49.2%	-0.1%	0.4%	1.2%	2.2%	4.4%	-22.3%	
UK	1.4549	1.4513	0.2%	-0.2%	1.3%	-1.3%	-2.6%	-7.7%	-2.5%	
Germany	2.1738	2,1620	-0.5%	-0.1%	0.7%	-1.3%	-4.8%	-6.8%	-13.8%	
Australia	0.5033	0.5046	-0.3%	-0.9%	0.1%	2.4%	-9.9%	-14.9%	-9.5%	
Canada	1.5886	1.5783	-0.7%	0.0%	-0.8%	-0.6%	-6.0%	-3.7%	-1.0%	
Gold	279.65	280.50	-0.3%	0.3%	0.8%	4.5%	2.7%	-5.5%	-0.4%	
Theiland	44.71	44.7	0.0%	0.2%	0.4%	-0.6%	-3.0%	-15.7%	-2.3%	
Indonesia	10,475	10400	-0.756	-1.3%	-2.1%	7.9%	-8.3%	-38.5%	14.5%	
Malaysia	3.80	3.80	0.0%	0.0%	0,05%	0.055	0.0%	0.05%	0.0%	
Philippines	51.95	51.95	0.0%	0.0%	0.2%	-E.2%	-3.9%	-24.1%	-4.2%	
South Korea	1,291	1293	0.2%	-0.1%	0.3%	1.0%	-2.1%	-11.4%	6,0%	
Taiwan	34.50	34.50	0.016	0.0%	0.1%	0.0%	-4.2%	-5.5%	2,7%	
Singapore	1.8235	1.8241	0.055	0.3%	0.2%	-3.3%	-5.2%	-4.1%	-1.0%	
Chira	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Brazil	2.6960	2.7230	1.0%	0.0%	1.0%	-1.0%	-38.3%	-8.0%	-33.1%	
Mexico	9,2795	9.2500	-0.3%	0.2%	-0.5%	2.3%	3.7%	-1.4%	4.1%	
Chile	713.65	716.35	0.4%	-0.1%	0.2%	-3.0%	-24.4%	-8.3%	-10.7%	
Colombia	2,308.50	2306.00	-0.1%	0.2%	0.3%	1.1%	-3.2%	-19,3%	-17.3%	
Venezuela.	743.90	743.65	0.0%	0.0%	49.1%	-0.2%	-6.3%	-7.8%	-13,0%	
Poland	4.0900	4.1060	0.4%	-0.5%	0.0%	3.3%	1.0%	0.1%	-15.1%	
Hungary	283,43	283.20	49.12%	-0.8%	-0.1%	-0.6%	-1,4%	-11.0%	-14.5%	
Czech	37.346	37,199	-0.4%	-0.3%	0.9%	-0.2%	0.7%	-5.1%	-15.7%	
Russia	29,719	29,690	-0.1%	0.056	0.0%	-0.9%	-4.1%	-3.6%	-25.2%	
South Africa	9,4446	9.4151	-0.3%	0.4%	-0.8%	4.6%	-24.4%	-23.5%	-4.5%	
Turkey	1,595,000	1,595,000	0.0%	0.9%	0.9%	-4.2%	-138.0%	-23.6%	-41.9%	
Greece	378.72	376.67	-0.5%	-0.1%	0.7%	-1.3%	-4.8%	-10.2%	-13.9%	
			· ·	molei na (In	lacat annu	en au tanne				

				quities (In	local curr	ency fernie	1		
	Unit Ct	nange			recent Change		<i>'</i>		
	31-0a	30-Oct	31-0ct	30-001	This rek	This me	This ye	fu '69	In '99
Dow	9675	9122	-0.5%	-1.6%	-4.9%	2.6%	-1.5.9%	-6.2%	25,2%
Nagday	1690	1667	1,4%	-1.9%	4.5%	12.8%	-31.6%	-39.3%	85.6%
Nikkei	10366	10513	-1.4%	-0.9%	-4.0%	6.1%	-24.8%	-27.2%	36.8%
FT-SE 180	5040	5004	0.7%	-0.6%	-2.9%	2.8%	-19.0%	-10.2%	17.8%
DAX	4559	4544	0.3%	-2.5%	-5.4%	5.8%	-29.1%	7.5%	39.1%
CAC-40	4341	4252	2.1%	-3.0%	-3.1%	6.4%	-26.7%	-0.5%	51.1%
Thailand.	275	274	0.5%	-1.6%	-2.0%	-0.7%	2.2%	-44,1%	35.4%
Indenesia	384	378	1.4%	-1.6%	-1.1%	-2.2%	-7.8%	-38,5%	70.1%
Malaysin	600	603	-0.5%	-0.4%	-2.0%	-2.5%	-11.7%	-16,3%	38,6%
Philippines	993	995	-0.2%	0.0%	0.9%	-11.8%	-33.5%	-30.3%	8,8%
Hong Kong	10074	10076	0.0%	-1.0%	-3.2%	1.2%	-33,3%	-11.0%	68.8%
South Korea	538	534	0.7%	-2.6%	-1.0%	12.1%	6,6%	-50.9%	82.8%
Taiwan	3903	3916	-0.3%	-3.7%	-3.5%	7.3%	-17,7%	-43.9%	31.6%
Singapore	1368	1383	-1.1%	-0.7%	-3.1%	3,7%	-29.056	-22.3%	78.0%
China	156	155.07	0.8%	-1.3%	0.2%	3.2%	74.6%	136,2%	32.0%
Brazil*	11365	11024	3.1%	-3.1%	-3.5%	6.9%	-25.5%	-10.7%	151.9%
Argentina*	225	224	0.5%	1.8%	-6.5%	-7,7%	-46.1%	-24.3%	28.0%
Mexico*	5537	5529	0.1%	-1.2%	-2.7%	2.5%	-2.0%	-20.7%	80.1%
Chile	103	163	0.3%	0.056	-1.3%	4.7%	7.3%	-32.6%	41.8%
Colombia	814	817	-0.4%	-0.2%	0.1%	-12.6%	14.2%	-28.6%	-9.3%
Venezuela	6689	6635	0.8%	-0.5%	-0.1%	-5.0%	-2.0%	26.0%	14.8%
Poland	13736	13691	0.3%	-1.9%	-1.1%	15.5%	-23,0%	-1.3%	41.3%
Husgary	6773	4685	1,3%	-2,0%	-0.5%	9.7%	-13.7%	-11.0%	39.8%
Czech.	375	373	0.8%	-1.1%	-0.3%	13.1%	-21.6%	-2.3%	24.2%
Russia	204	205	-0.3%	1.8%	2.5%	13.2%	42.4%	-18.2%	197.4%
South Africa	8543	8506	0.4%	-1.3%	-0.4%	5.1%	2.6%	-2.5%	57.3%
Turkey	9649	9920	-0.7%	0.0%	-0.7%	29,1%	4.4%	-37.9%	485,4%
Greece	2468	2383	3.6%	-0.3%	4,1%	10.9%	-27.2%	-38.8%	102.2%

^{*} Equilies begin 1 ading in Brazil, Argentina, and Masko at 8:00 a.m., 9:00 a.m., and 9:30 a.m., Sastam time respectively.

From: Cetina, Jill

Sent: Wednesday, October 31, 2001 1:02 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Oct 31 Noon Report -- A morning of surprises.. better-than-expected data but the curve flattens

A morning of surprises — preliminary Q3 GDP and Chicago PMI better-than-expected; Treasury eliminates the long bond; buybacks as needed going forward

U.S. Markets

Treasuries: Today's advance Q3 GDP data came in somewhat better-than-expected, contracting 0.4% q.q. At 10 a.m. Treasury announced it would eliminate issuance of 30-year nominal and inflation adjusted bonds and that while buybacks would continue for this year future buybacks would be announced quarterly. The decision caught participants off-guard. The bond rallied with the yield falling 29 bps to 4.92% in heavy trading. TIPS also rallied.

However, dealer contacts complained news of the bond's elimination had been leaked — eiting early morning rumors, tightness of the bond in the repo market yesterday, buying of cash and futures ahead of the official release as well as an early posting of the news on Treasury's website. A few dealers noted rumors had also circulated that Treasury would resume monthly 5-year auctions which was not announced today. Some dealers questioned whether the Administration was trying to flatten the Treasury curve to pass on lower rates to corporates and homeowners to stimulate the economy. Short-dated Treasuries underperformed, as accounts reallocated and bought bonds and on strength in U.S. equities. Ancedotally, some participants noted today's data coupled with lower rates at the back-end increased the likelihood the FOMC would cut by 25 bps next Tuesday, not 50 bps. The 2-10 year and 2-30-year curves are 11 and 23 bps flatter relative to this morning. Canadian long bonds benefitted, with the yield falling 16 bp (JCetina 2-2017)

U.S. equities were mostly higher in active trading, in reaction to today's data. News Treasury was halting sales of long bonds also boosted stocks. Enron rose 14.2% to \$12.75 on talk of a takeover by GE Capital, Berkshire Hathaway or Royal Dutch Petroleum. (JSharer 2-2042)

Global Markets

Fx: The dollar gained following the data, and was also bolstered by strength in equities and Treasury's news about the bond and is currently about 0.5% firmer against most major currencies. This morning's move has pushed the cure and yen to near technically significant levels at \$0.90 and \$122.50, if these levels are broken, further dollar buying could be triggered. (JCetina 2-2017)

Europe: European bourses closed flat to 2.1% higher, with the CAC-40 outperforming as a number of firms announced cost-cutting moves and U.S. equities gained. German bund yields were up 2 to down 9 bps, with 30-year bunds outperforming. U.K. gilt yields fell 1 to 6 bps on slumping consumer confidence and expectations for another BOE rate cut. (JSharer 2-2042)

Latin America: Dealers noted this morning continued interest by a large Spanish bank to buy Argentine honds earlier this morning, triggering further buying by others to cover short positions. However, later in the morning contacts noted rumors Argentina has moved its reserves to the BIS (interpretted as a move to protect Argentine assets from creditors in the event of a default) which has weighed somewhat on Argentine debt. The Argentine DS band is currently down 2 points. (JCetina 2-2017)

Today's Events:	Actual	Previous Period	Consensus
Expectation	0.401 - 1-	0.75	1.0
US Q3 GDP, advance	-0.4% q/q 2.1%	0.5% q/q 2.1%	-1.0 q/q 1.6%
US Q3 GDP deflator Treasury Quarterly Refunding	10 a.m.	2.170	1.0-9
Chicago PMI	46.2	46.6	44.0

In addition to the PDF version of the report, please find text from today's Quarterly Refunding.

Noon Global Financial Markets

A morning of surprises -- preliminary Q3 GDP and Chicago PMI better-thanexpected; Treasury eliminates the long bond; buybacks as needed going forward

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Global Markets

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10/31/01	

Equities	1:01 PM	Change
DUA	9,090	4035%
Number	1.685	1.6%
S&F 500	1,068	9 6 91 4
Wilshire Tot Mks	9,785	0.62%
DWA Val.	127,135,200	
ConeSan TSE	6,654	0.415s
Mexican Bolsa	5,532	0.03%
Brazilius Bevespa	11,061	0.33%
German Dan.	4,527	-0.37%
Prench CAC-40	4,341	2.10%
U.K. FTSE	5,040	0.72%
Nikikoi -225	19,366	-0.39%

U.S. Treasuries	1:0t PM	Change byo
I-month MD	2.14%	T
3-month bill	2.07%	
6-montă biă:	1.96%	-4
3-year	2.47%	2
5-year	3.51%	-3
10-year	4.26%	-10
Myour	4.82%	-38

Maney Markets	1:01 PM	Charge lps
Overnight raze	2.6914	unchanged
December Fed Funds contract imp yield	2.03%	3

USD performance	15	1:01 PM	Clange
Japanese yen		122.39	0.28%
Euro	5	0.9019	0.28%
Storling	5	1.4565	-0.36%
Styles Stanc		1.6303	0.39%
Constitut dellar		1.5871	0.60%
Mexican pose-		9.213	0.29%
Benzilian enal		2.695	-0.99%

Other cross rates	Lett PM	Change
Euro/yen	110.34	0.02%
liuno/parting	0.6189	-0.66%

Commodities	1:01 PM	Change
GetG Decid	5279.30	-50.50
Oil (Brent)	\$19.63	-59.77
Near-durind NYMEX fetures contract	\$21.72	-90.65

Today's Events: US Q3 GDP, advance	Actual	Previous Period	Consumus Expectation	
US Q3 GDP deflator	-0.4% q/q 2.1%	0.3% q/q 2.1%	-1.0 q/q 1.6%	
Treasury Quarterly Refunding	9:45 a.m.			
Chicago PMI	46.2	46.6	44.0	

For Internal Use Only

Oraffed by: Jill Cetina 10/31/01 1:01 PM

GLOBAL FINANCIAL MARKETS 10/31/01 12:00 PM

		21-Oct		36-Oct			31-Oet	Friday's clo	M	This week		This year
SPERFORMANCE	 	e prometo	HERY CO.		10年1日	est on vision	gradient by	PARTITION	2 KH2	MARCON -	60,000	derreture a
Yen		122.52		121.97			0.45%	122.70		-4.15%		-2.1056
Eure		0.5001		0.5047			0.51%	0.8932		-0.77%		-4.51%
Sterling		1.4539		1.4513			-0.18%	1.4364		-1.2849		-2.63%
Swiss Catadian S		1.6345		1,6246			0.61%	1.6512		-1.00%		-8.46%
Australian S		1.5823		0.5846			0.57%	1.5765		0.6816		-5.88%
Kercan you		1291.0		1293.4			6.34%	0.5027		-0.04%		-10.00%
Indonesian rapiah		10425		08400			-0.15% 0.72%	1294.5 10260		-0.27%		-2.66%
Philippine peso		51.95		51.95			0.7256	52.85		2,10%		-8.27%
Tital built		44.71		44,70			0.0256	44.88		-0.19%		-3.99%
Taiwan S		34.50		34.50			0.00%	34.52		-0.38%		-3312%
Polish aloty		4.051		4,106			-0.38%	4,091		-0.06%		417%
Russian rubte		29.73		29.69			0.14%	29.71		-8.02% 8.07%		1.02%
South African rand		9.437		9.415			0.23%	9,366		0.76%		4.17%
Mexican pero		9,268		9.250			0.19%	9,237		0.34%		-24.34%
Bradillan reid		2,700		2,723			-0.84%	2,724		-0.88%		3.87%
01211111111111111		81100		2.723			-0.0am 76	2.724		-0.8676		-38.4679
COMMODITIES	- 7.04	grafito il darbon	40.00	A CO MANAGEMENT	100	704 Oct.	1 12 2 1			a partici		
Gold		\$279.00		\$280.50			-0.53%	\$277.40		0.58%		2,42%
European Brent		519.57		520.41			4.12%	\$20,31		-3.64%		+13,13%
Near Nymex fatures		\$21,04		\$21,29			-3.44%	\$22.03		-4.49%		-21,49%
CRB Index		\$185.18		\$185,68			-0.27%	5184.49		0.37%		-18,72%
EQUITIES			COLUMN TWO	Ratificative to	MARKET SERVICE	Section 1		and the same	18-71-915	PMDIC VICTORIA		-re-copies to
Day Jones		9,121		9,122			-					
Nusdag		1,700		1,667			-0.00% 1.94%	9,545 1,769		-4.45% -3.91%		-15,45%
5.61° 500		1,064		1,060			0.44%	1,105		-3.64%		-31.20% -19.38%
Nikleri 225		10,366		18,513			-1.39%	10,795		-3.97%		-24.88%
Japan Topix		1,059		1,048			0.79%	1,101		-3.88%		-17,47%
German DAX		4,559		4.544			0.33%	4,820		-5.42%		-29,14%
French CAC-48		4341		4,252			2.10%	4,479		-3.07%		-26,75%
U.K. FYSE-160		5.040		5,004			0.72%	5.189		-2.87%		-19.01%
H.K. Hang Seng		100774		10,076	-		-0.02%	10.465		-3.19%		-33,27%
Korean Kospi		538		534			0.74%	543		-1.03%		6,58%
Tuiseum Weighted		3,500		3,916			4.31%	4,644		-3,46%		-17,72%
Polish Wig		13,736		13,691			0.33%	13,895		-1.14%		+23.04%
South African JSE		8,543		8,506			0.44%	8,574		-4.36%		2.61%
Mexican Bolsa		5,577		5,529			0.87%	5,493		-2.03%		4.35%
Brazilian Bevespa		11,199		11,024			1.59%	11,781		-4.94%		-26.61%
		HAT DESCRIPTION OF THE PARTY OF										
Enther (State Collection Co.								Elenous de				
wernight rate	2.63 3	0.05	0	3.76	0	3,88	-37	3.76	:	3.76		3.74
enserth trill	2.97 3 2.52 6	0.01	0	3.52	-1	4.16	-6	3.41		3.52	-	2,37
year bond year bond		0.12	0	3.14 3.74	1	4.17	1	3.16		3.31	2	2.99
year nons Issuar bond	3.62 3 4.37 -4	1.31	-1	4.39	1 -1	4.55	-1	3.81 4.54	-1	3.88	1	4.20
l-year bond	4.94 -26		-4	5.05	-1	433	-3	5.89	-10	6.75 5.39	-6	5.39
	4,54 -20	2.77	-		-	100	-9	2.67	-10	5,37	-9	3.54

LS FIXED INCOME	I-was Family	H-year Family	16-year propagated	1-10 year UST agend	2-W year UST spread
Current	0.00	4.92	65	t86	243
Bps change	unchanged	4	0	-11	-33

EMERGING FIXED INCOME	Korea '88	Thailand '11	Indonesia '46	Russia Minitio '07	Paland PD1	
Current Bps change	5.58 -5 <u>Argentina For</u>	5.54 -6 <u>Brazil C</u>	11.08 unchanged Mexico Par	13.61 unchanged Vascrach, DCB	7.05 -1	
Current	41.08	15.93	9.34	13.44		
Bps change	263	-116	6	9		

					Currenci	ies			
	Unit Change (In local correspy torses)			Perce		(In Dollars	per Unit Te	rms) –	
	31-Oct	39-Oct	31-0ct	30-Oct	This week	This month	This year	In '90	In '99
Japan	122.52	121.97	-0.5%	0.0%	0.15%	-2.5%	-7.1%	-11.9%	11.3%
Euro	0.9001	0.9047	-0.5%	-0.1%	0.8%	-1.3%	4.5%	-6.3%	-14.3%
EuroYen	119.26	110.33	-0.1%	-0.1%	0.5%	1.3%	2,4%	4.4%	-22.3%
UK	1.4539	1.4513	0.2%	-0.2%	1,2%	-1.4%	-2.6%	-7.7%	-2.5%
Germany	2.1733	2,1620	-0.5%	-0.1%	0.8%	-1.3%	-4.7%	-6.8%	~13.8%
Australia	0.5029	0.5046	-0.3%	-0.9%	0.0%	2.4%	-10.0%	-14.9%	-0.5%
Canada	1.5873	1.5783	-0.6%	0.0%	-0.7%	-0.5%	-5.9%	-3.7%	-1.0%
Gold	279.00	280.50	-0.5%	0.3%	0.6%	-4.8%	2.4%	-5.5%	-0.4%
Thailand	44.71	44.7	0.0%	0.2%	0.4%	-0.6%	-3.0%	-15.7%	-2.3%
Indonesia	10,475	10400	-0.7%	-1.3%	-2.1%	7.9%	-8.3%	-38.5%	14.5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.45%	0.0%	0.056	0.0%
Philippines -	51.95	51,95	0.0%	0.0%	0.2%	-1.2%	-3.9%	-24.1%	-4.2%
South Korea	1,291	1293	0.2%	-0.1%	0.3%	1.0%	-2.1%	-11.4%	6.0%
Taiwan	34.50	34.50	0.0%	0,8%	0.1%	0.0%	-4.2%	-5.5%	2.7%
Singapore	1.8231	1.8241	0.1%	0.3%	0.2%	-3.2%	-5.2%	-4.126	-1,05%
China	8.28	8.28	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.05%
Beacil	2,7000	2.7236	0.8%	0.0%	0.9%	-1.1%	-38.5%	-8.0%	-33.1%
Mexico	9.2680	9.2500	-0.2%	0.2%	-0.3%	2.4%	3.9%	-1.4%	4.1%
Chile	713.45	716.35	0.4%	-0.1%	0.2%	-2.9%	-24,3%	-8.3%	-10.7%
Colombia	2,308.00	2306.00	-0.1%	0.2%	0.3%	1.1%	-3.2%	-19.3%	-17.3%
Venezuela.	743.41	743.65	0.0%	0.0%	0.0%	-0.1%	-6.3%	-7.8%	-13.0%
Poland	4.0905	4.1060	0.4%	-0.5%	0.0%	3.2%	1.0%	0.1%	-15.1%
Hungary	283.58	283.20	-0.1%	-0.8%	-0.2%	-0.6%	-1.0%	-11.056	-14.5%
Czech	37.333	37.199	-0.4%	-0.3%	1,0%	-0.2%	0.8%	-5.1%	-15.7%
Russia	29,731	29.690	-0.1%	0.0%	-0.1%	-0.9%	-4.2%	-3.6%	-25.2%
South Africa	9.4371	9.4151	-0.2%	0.4%	-0.8%	-4.5%	-24.3%	-23.5%	4.5%
Turkey	1,593,500	1,595,000	0.1%	9,9%	1,0%	-4.2%	-137,7%	-23.6%	-41,95%
Greece	378.64	376.67	-0.5%	-0.1%	0.8%	-1.3%	4.8%	-10.2%	-13.9%

	Equities (In local currency terms)								
	Unit Ci	ange		Pe	rcent Change				
	$31-O\kappa\tau$	39-Oct	31-0cr	30-Oct	Dis wk	This mo	This we	In '00	In '99
Dave	9121	9122	0.0%	-1.6%	-4.4%	3.1%	-15.4%	-6.2%	25.2%
Nasduq	1790	1667	1.9%	-1.9%	-3.9%	13,4%	-31.2%	-39.3%	85.6%
Nikkei	19366	10513	-1.4%	-0.9%	-4.0%	6.1%	-24.8%	-27.2%	36.8%
FT-SE 108	5840	5004	0.7%	-L6%	-2.9%	2.8%	-19.0%	-10.256	17.8%
D.4X	4559	4544	0.3%	-2.5%	-5.4%	5.8%	-29.1%	-7.5%	39.1%
C4C-49	4341	4252	2.1%	-3.0%	-3.1%	6.4%	-26.7%	-0.5%	51.1%
Thailand	275	274	0.5%	-1.6%	-2.0%	-0.7%	2,2%	-44.1%	35,4%
Indonesia	384	378	1.4%	-1.6%	-1.1%	-2.2%	-7.8%	-38.5%	70.1%
Malaysia	600	603	-9.5%	-0.4%	-2.0%	-2.5%	-11.7%	-16.3%	38.6%
Philippines	993	995	-0.2%	0.0%	-0.9%	-11.8%	-33.5%	-30.3%	8,8%
Hong Kong	10074	10076	0.056	-1.0%	-3.2%	1.2%	-33.3%	-11.0%	68.8%
South Korea	538	534	0.7%	-2.6%	-1.0%	12.1%	6,6%	-50.9%	82.8%
Taiwan	3943	3916	43%	-3.7%	-3.5%	7.3%	-17.7%	-43.9%	31.6%
Singapore	1368	1383	-1.1%	-0.7%	-3.1%	3.7%	-29,0%	-22,3%	78.0%
China	156	155.07	0.8%	-1.3%	0.2%	3.2%	74.6%	136.2%	32.0%
Brazell*	11199	11024	1.6%	-3.1%	-4.9%	5.3%	-26.6%	-10,7%	151.9%
Argentina*	228	224	2.1%	1.8%	-5.1%	-6.3%	-45.2%	-24,3%	28.0%
Mexico*	5577	5529	0.9%	-1.256	-2.0%	3.2%	-1.3%	-20,7%	89.1%
Chile	104	103	0.5%	0.0%	-1.1%	4.95%	7.6%	-32.6%	41.8%
Colombia	817	817	0.0%	-0.2%	0.5%	-12.3%	14.6%	-28.6%	-9.3%
Venezuela	6582	6635	-0.8%	-0.5%	-1.6%	-6.5%	-3.6%	26.0%	14.8%
Peland	13736	13691	0.3%	-1.9%	-1.1%	15.5%	-23.0%	-1.3%	41.3%
Hungary	6773	6685	1.3%	-2.0%	-0.5%	9.754	-13.7%	-81.0%	39,8%
Czech	375	373	0.8%	-1.1%	-0.3%	13.1%	-21.6%	-2.3%	24,2%
Russia	204	205	-0.3%	1.8%	2.5%	13.2%	42.4%	-18.2%	197,4%
South Africa	8543	8506	0.4%	-1.3%	-0.4%	5.1%	2.6%	-2.5%	57.3%
Turkey	9849	9920	-0.7%	0.0%	-0.7%	29.1%	4,4%	-37.9%	485,4%
Greece	2468	2383	3.6%	-0.3%	4.1%	10.9%	-27.2%	-38.8%	102.2%

Equities begin trading in Brazil, Argentine, and Musico at 8.20 a.m., 9.00 a.m., and 9.30 a.m. Eastern time respectively.

From:

Sharer, James

Sent:

Tuesday, October 30, 2001 4:54 PM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Memo 10/30/01

- -- U.S. equities extended losses on weak U.S. data, earnings warnings.
- -- Treasury prices climbed on weaker stocks, declining consumer confidence.
- The dollar traded in a narrow range against the major currencies.

U.S. Markets

U.S. equity markets closed with solid losses in active trading. News of a larger-than-expected drop in the October consumer confidence report and worries over anthrax and possible terrorist attacks weighed on investors. Traders also noted earnings warnings for Philip Morris and CVS Corp. Enron Corp. fell 19.2% to 11.16 today and has dropped 67.0% in the last two weeks. The worst stock performers today were semiconductor, electrical equipment, oil, telephone, financial and software issues.

Treasury coupon prices were up 1/8 to 5/8 point in moderate trading, mainly reflecting weakness in the U.S. equity market and the large drop in the October consumer confidence index. The yield on the Treasury 2-year notes, now at 2.46%, is below the Federal funds target rate of 2.50%. The yield on the Treasury 10-year notes, currently at 4.43%, marks a three-year low. Dealers await Treasury's announcement tomorrow morning of the details of the November refunding operation and the release of the advance 3Q GDP report for further direction. Treasury auctioned today \$12.0 billion 4-week T-bills to raise \$4.0 billion new cash. The results were as follows:

Awarded rate: 2.140% Coverage ratio: 2.37 times

Today's awarded rate compares with last week's awarded rate of 2.280%.

The November Federal funds futures contract fell 3 basis points to 2.18%, while the December and January contracts fell 4 bps and 5 bps to 2.00% and 1.95%, respectively.

The December crude oil contract fell \$0.28 to \$21.87 a barrel ahead of the weekly API oil inventory report. The Bush administration is seeking to replenish the SPR over three years. The December natural gas contract fell \$0.16 to \$3.18 per million btu. Spot gold rose \$1.50 to \$280.10 an ounce.

Global Markets

The dollar traded in a narrow range against the euro and yen ahead of tomorrow's U.S. 3Q GDP data. The dollar was 0.2% firmer against the British pound but 0.2% weaker against the Swiss franc.

Latin American equity markets closed mostly lower, given the weakness in the U.S. stock market. The Bovespa and Bolsa fell 3.1% and 1.3%, respectively. However, the Merval index edged up 1.8% following yesterday's 8.7% plunge. The Argentine FRB bond rose 4 1/2 to 59 on some short-covering. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 650 and 3600, respectively. Brazil's real was little changed on the day.

The EMBI+ spread narrowed 4 bps to 1064 bps over the comparable Treasuries. Several other EMBI+ sub-indexes also narrowed, including Argentina (-39 to 2027) and Brazil (-16 to 1179). However, the Mexican sub-index rose 5 bps to 403 bps and Turkey's sub-index rose 12 bps to 920 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
JPN Housing Starts, Sept.		-4.0% m/m	-6.5% m/m
FRN Unemployment Rate, Sep	it.	9.0% m/m	-9.0% m/m
ITL Prelim. CPI, Oct.		+2.5% y/y	+2.6% y/y
US 3Q GDP	8:30 AM	-1.0%	+0.3%
US Chicago PMI, Oct.	10 AM	44.0	46.6



Closing Global Financial Markets

October 30, 2001

easy Money Mayes Link 622-2650

- U.S. equities extended losses on weak U.S. data, earnings warnings.
- Treasury prices climbed on weaker stocks, declining consumer confidence.
- The dollar traded in a narrow range against the major currencies.

U.S. Markets

U.S. equity markets closed with solid losses in active trading. News of a larger-thanexpected drop in the October consumer confidence report and worries over anthrax and possible terrorist attacks weighed on investors. Traders also noted earnings warnings for Philip Morris and CVS Corp. Enron Corp. fell 19.2% to 11.16 today and has dropped 67.0% in the last two weeks. The worst stock performers today were semiconductor, electrical equipment, oil, telephone, financial and software issues.

Treasury coupon prices were up 1/8 to 5/8 point in moderate trading, mainly reflecting weakness in the U.S. equity market and the large drop in the October consumer confidence index. The yield on the Treasury 2-year notes, now at 2.46%, is below the Federal funds target rate of 2.50%. The yield on the Treasury 10-year notes, currently at 4.43%, marks a three-year low. Dealers await Treasury's announcement tomorrow morning of the details of the November refunding operation and the release of the advance 3Q GDP report for further direction. Treasury auctioned today \$12.0 billion 4-week T-bills to raise \$4.0 billion new cash. The results were as follows:

Awarded rate; 2,140%. Coverage ratio: 2.37 times.

Today's awarded rate compares with last week's awarded rate of 2.280%.

The November Federal funds futures contract fell 3 basis points to 2.18%, while the December and January contracts fell 4 bps and 5 bps to 2.00% and 1.95%, respectively.

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The EMBI+ spread narrowed 4 bps to 1084 bps over the comparable Treasuries. Several other EMBI+ sub-indexes also narrowed, including Argentine (-39 to 2027) and Brazil (-16 to 1179). However, the Mexican sub-index rose 5 bps to 403 bps and Turkey's sub-index rose 12 bps to 920 bps.

Equities	4:10 PM	Change
DJIA	9,122	-1.99%
Nasdaq	1,667	-1.89%
S&P 500	1,060	-1,772%
Wilshire Tot Mkt	9,797	-1.73%
DITA Vol.	113,608,700	
Caradian TSE	6,825	41.053%
Mexican Bolsa	5,529	-1.25%
Brazilian Bovospa	11,024	-3.10%
German Dax	4,544	-2.40%
French CAC-40	4,252	-3.00%
U.K. FISE	5,004	-1.62%
Nikkei-235	10,513	0.00%

U.S. Treasuries	4:10 PM	Change has
I-manth bill	2,21%	+2
3-month bit!	2.04%	-7
6-manch bill	1.99%	-7
2-year	2,46%	-10
5-year	3.60%	-6
10-year	4.4314	-6
30-year	5.22%	-4

Money Markets	4:10 PM	Change bps
Overnight rate	2.50%	-6
December Fed		
Funds contract imp	2.00%	-4
yld:		

USD versus		4:10 PM	Change
Јарапесе уев		121.93	0.0346
Euro	S	0.9046	0.01%
Sterling	S	1.4511	0.22%
Swiss franc		1.6241	-0.30%
Canadian dollar		1.5781	0.00%
Mexican pesa		9.248	48.17%
Brazilian real		2.722	0.00%

Other cross rates	4:10 PM	Change
Euro/yen	110.29	0.03%
Euro/sterling	0.6223	0.08%

Commodities	4:10 PM	Change
Gold	\$280.10	\$1.50
Oil (Brent)	520.41	-80.13
Near-dated NYMEX		
contract	522.05	-S0.10

	/			Maritimeter terretainment and the
	Tomorrow's Events:	Time	Consensus Expectation	Previous Period
	JPN Housing Starts, Sept.		-4.0% m/m	-8.5% m/m
I	FRN Unemployment Rate, Sept.		9.0% m/m	-9.0% m/m
	ITL Prelim. CPI, Oct.		+2.5% y/y	+2.6% y/y
	US 3Q GDP	8:30 AM	-1.0%	+0.3%
ı	US Chicago PMI, Oct.	10 AM	44.0	46.6

For Internal Use Only

Drafted by: Jim Sharer 10/30/01 4:46 PM

GLOBAL FINANCIAL MARKETS 10/30/01 4:15 PM

	20-Oct	29-Oct	34-Oct	Friday's close	This week	This year
PERFORMANCE	CASHAGE BATTERNA AND N	· 5.6.5 保持1082数/指挥3	British Allendar	· 医对型 1000年年	97.20% C	or Burthage
Yen	. 121.98	121.96	6.03%	122.79	-0.59%	-6.63%
Euro	0.9047	0.9053	0.06%	0.8932	-1.28%	-4.02%
Storting	1.4510	1,4549	0.27%	1.4364	-1.01%	-2.82%
Stries	1.6247	1.6271	4.15%	1.6512	-1.60%	4.84%
Constian 5	1.5784	1.5751	0.21%	1,5765	0.12%	-5.29%
Australian 5	0.5045	0.5058	0.26%	0.5027	-0.36%	49,7354
Korean won	1293.0	1291.5	0.1214	1294.5	4.12%	-2.21%
Indonesian repiah	10400	10270	1.27%	10260	1.36%	-7,49%
Philippine poso	51.95	51.93	0.05%	\$2.05	-0.19%	-3.58%
Thai bahi	44,78	44.80	-0.22%	44.88	-0.40%	-3.80%
Tainas 5	74,51	34.59	0.00%	34.52	-0.16%	-4.1754
Polish zloty	4,106	4.188	0.45%	4.091	0.36%	0.64%
Russian rubie	29.69	29.68	-0.04%	29.71	-0.67%	-4.03%
South African rand	9,420	9.328	0,99%	9.366	0.58%	-24,11%
Mesican peso	5.254	9.273	-0.20%	9.237	0.10%	4.0156
Brazilian reill	2.723	2.723	0.00%	2.724	-0.04%	-39.64%
COMMODITIES	and the state of the same		(Kirsa) is vale		9.14	.0.5.
Geld	\$298.35	\$278.99	0.52%	\$277.40	1.06%	2.92%
Enrapean Brest	\$20.41	520.55	-0.68%	520.31	9.49%	-9.61%
Sear Nymex Intures	521.75	\$32.17	-1.89%	\$22.03	-1.27%	-18.84%
CRB Index	. \$185.68	\$185,67	0.01%	\$184.49	0.65%	-18.50%
ASSES FOR THE STREET	1 400年 日本人は基礎を持ちませた	South Property Proper	网络学生的建筑企业 。	Property Control	P. C.	Control Paris
Dow Jones	9,122	9,270	-1.59%	9,545	-4.43%	-05.43%
Nasdaq	1,667	1,700	-1.89%	1,769	-5.74%	-32.51%
5&P 500	1,664	1,078	-1.72%	1,105	-4.8676	-19.73%
Nikket 225	16,513	10,612	-0.94%	10,795	-2.63%	-23,74%
Japan Topix	1,068	L,063	-1.38%	1,101	-2.64%	-16.82%
German DAX	4,544	4,660	-2.58%	4,820	-5.73%	-29.37%
French CAC-48	4,252	4,383	-3.66%	4,479	-5.66%	-28.25%
U.K. FTSE-100	5,004	5,586	-1.62%	5,189	-3.57%	-19.59%
H.K. Hang Seng	10,076	10,378	-1,48%	10,405	-3.16%	-33,29%
Kurean Kospi	534	548	-2.56%	543	-1.76%	5.80%
Tolwan Weighted	3,916	4,865	-3.68%	4,044	-3,16%	-17.46%
Polish Wig	13,691	13,557	-1.91%	13,895	-1,47%	-23.29%
South African JSE	8,505	8,616	-1.28%	5,574	-0.80%	2.16%
Mexican Bolia	5,529	5,599	-1.25%	5,693	-2.88%	-2.18%
Brazilian Bavespa	11,024	11,377	-3.10%	11,781	-6.42%	-27.76%

ACCUSE AND REAL PROPERTY.	S CHESTS	2700	gireng	Series.	garage and	8275/2	はなれた	0.1000	Sec. Sylven	Millery	and the same	Chino Cal	Parchell.	d'agreen.
Overright rate	2.60	11	0.05	0	3.76		4.25	-42	3.76	0	3.76	0	2.69	-3
3-month bill	2.04	-7	0.01	0	3.56	-2	4.22	-2	3.41	-1.	3.56	-2	2.35	-5
2-year bond	2,46	-10	0.12	0	3.12	-8	4.16	-9	3.45	-7	3.28	-8	2.49	-12
5-year bond	3.60	-8	0.46	1	3,73	-7	4.57	-4	3.79	-7	3.87	-7	4.17	-13
10-year bend	4.43	+6	1.33	1	4.40	-6	4.57	-8	4.54	-6	4.74	-6	4,99	-9
36-year bond	5.22	-4	2.52	0	5.11	-3	4.40	-5	5.19	-3	5.45	-2	5.57	-7
1														

ES PIXED INCOME	Seyour Fample	Hour Frank	Manage was special	2-18 year UST spread	2-30 year UST surced	1
Current	0,00	4.96	64	197	276	
Bpn change	unchanged	-7	1	4	6	

EMERGING FIXED INCOME	Korea 108	Thailand "11	Indonesia '06	Russia MinFis '02	Poland PD1	
Current Bys change	5.63 -2 <u>Arzentina Far</u>	5.60 -5 Bruzil C	11.08 unchanged Mexico Par	13.66 unchanged <u>Venezuela</u> DCB	7.86 unchanged	
Current	38.47	16.11	9.23.	13.37		
Bps change	477	-21	4	-41		

					Currenci	ies					
	Unit Charge (In term			Perce	ent Change	nt Change (In Dollars per Unit Terms)					
	38-04	29-Ocr	30-Oct	29-Oct	Ditte work	This month	This year	In '99	Ist '59		
Japan	121.98	121.96	0.0%	0.6%	0.6%	-2.1%	-6.6%	-11.9%	11.3%		
Euro	0.9047	0.9053	-0.1%	1.3%	1.3%	-0.8%	-4.1%	-6.3%	-14.3%		
EuroYen	110.35	110.39	0.0%	0.6%	0.6%	1,459	2.4%	4.4%	-22.3%		
UK	1.4510	1,4549	-0.3%	1.3%	1.0%	-1,6%	-2.8%	-7.7%	-2.5%		
Germany	2.1621	2.1605	-0.1%	1.4%	1.3%	-0.8%	-4.2%	-6.8%	-13.8%		
Australia	0.5445	0,5058	-0.3%	-0.9%	0.4%	2.7%	-9.7%	-14.9%	-0.5%		
Canada	1.5784	1.5751	-0.2%	0.0%	-0.1%	0.1%	-5.3%	-3.7%	-1.0%		
Gold	280.35	278.90	0.5%	0.3%	1.1%	4.3%	2.9%	-5.5%	-0.4%		
Thailand	44.70	44.8	0.2%	0.2%	0.4%	-0.6%	-3.0%	-15.7%	-2.3%		
Indonesia	10,400	10270	-1.3%	-0.1%	-1.4%	-7.1%	-7.5%	-38.5%	14.5%		
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.056	0.0%	0.0%	0.0%		
Philippines	51.95	51.93	0,055	0.2%	0.2%	-1.2%	-3.9%	-24,1%	-4.2%		
South Korea	1.293	1292	-0.1%	0.2%	0.1%	0.8%	-2.2%	-11.4%	6.0%		
Taisean	34,50	34.50	0.055	0.1%	0.1%	0.0%	-4.2%	-5.5%	2.7%		
Singapore	1.8241	1.8290	0.3%	-0.1%	0.2%	-3.3%	-5.2%	-4.1%	-1.0%		
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.056	0.0%		
Brazil	2,7230	2.7230	0.0%	0.0%	0.056	-2.0%	-39.6%	-8.0%	-33.1%		
Mexico	9.2540	9.2730	0.2%	-0.4%	-0.256	2.6%	4,0%	-1.4%	4.15%		
Chile	716.35	715.95	-0.1%	-0.1%	-0.2%	-3.3%	-24.9%	-8.3%	-10.7%		
Colombia	2,306.00	2310.25	0.2%	0.2%	0.4%	1.2%	-3.1%	-19.3%	-17.3%		
Venezuela	743.65	744.00	0.0%	-0.1%	0.0%	-0.25%	-6.3%	-7.8%	-13.0%		
Poland	4.1068	4.0875	-0.5%	9.1%	-0.4%	2.9%	0.6%	0.1%	-15.1%		
Hungary	283.20	280.92	-0.8%	0.8%	0.0%	-0.5%	-0.9%	-11.0%	-14.5%		
Czech	37,199	37,083	-0.3%	1.6%	1.3%	0.1%	1.1%	-5.1%	-15.7%		
Russia	29,690	29.692	0.0%	0.1%	0.1%	-0.8%	-4.0%	-3.6%	-25.2%		
South Africa	9.4201	9.3276	-1.0%	0.4%	-0.6%	-4.3%	-24.1%	-23.5%	-4.5%		
Turkery	1,595,000	1,610,000	0.9%	0.0%	0.9%	-4.2%	-138.0%	-23.6%	-41.9%		
Greece	376.69	376.42	-0.1%	1.4%	1.3%	-0.8%	-4.2%	-10.2%	-13.9%		

			E	quities (In			,		
	Unit Ch	range		Pe	rcent Change				
	30-Oct	29:Oct	30-Oct	29-Oct	This ork	This mo	This yr	In '00	In '99
Dow	9122	9270	-1.6%	-2.9%	-4,4%	3.1%	-15.4%	-6.2%	25.2%
Nasday	1667	1700	-1.9%	-3.9%	-5.7%	11,2%	-32.5%	-39.3%	85.6%
Nikkei	10513	10612	-0.9%	-1.7%	-2.6%	7.6%	-23.7%	-27.2%	36.8%
FT-SE 198	5004	5086	-1.6%	-2.0%	-3.6%	2.4%	-19.6%	-10.2%	17,8%
DAX	4544	4660	-2.5%	-3.3%	-5.7%	5.5%	-29.4%	-7.5%	39.1%
CAC-49	4252	4383	-3.0%	-2.1%	-5.1%	4.2%	-28.3%	-0.5%	51.1%
Thailand	274	278	-1.62%	-0.9%	-2.5%	-1.2%	1.6%	-44.1%	35.4%
Indonesia	378	384	-1.6%	-0.9%	-2.4%	-3.4%	-9.1%	-38.5%	70.1%
Malaysia	603	696	-0.4%	-1.1%	-1.5%	-2.056	-11.2%	-16.3%	38.6%
Philippines	995	995	0.0%	-0.8%	-8.7%	-11.7%	-33.4%	-30.3%	8.8%
Hong Kong	10076	10178	-1.02%	-2.2%	-3.2%	1.3%	-33.2%	-11,026	68.8%
South Korea	534	548	-2.6%	0.8%	-1.8%	11.3%	5.8%	-50.9%	87.8%
Taiwan	3916	4065	-3.7%	0.5%	-3.2%	7,75%	-87.5%	-43.9%	31.6%
Singapore	1383	1394	-0.7%	-1.2%	-2.0%	4.856	-28.2%	-22.3%	78,0%
China	155	157.11	-1.3%	0.6%	-0.7%	2.3%	73.2%	136.2%	32,0%
Brazil*	11024	11377	-3.1%	-3.4%	46,4%	3.7%	-27.8%	-10.7%	151.9%
Argentina*	224	220	1.8%	-8.7%	-T.0%	-8.2%	-46.4%	-24.3%	28.0%
Mexico**	5529	5599	-1.2%	-1.7%	-2.9%	2.3%	-2.2%	-20.7%	80,0%
Chile	103	103	0.0%	-1.6%	-1.6%	4.4%	7.0%	-32.6%	41.8%
Colombia	817	819	-0.2%	0.6%	0.5%	-12.3%	14.6%	-28.6%	-9.3%
Venezada	6635	6669	-0.5%	-0.4%	4.9%	-5.8%	-2.8%	26.0%	14.8%
Poland	13691	13957	-1.9%	0.4%	-1.5%	15.1%	-23.3%	-1.3%	41.3%
Hongary	6685	6823	-2.0%	0.2%	-1,8%	8.3%	-14.8%	-11.0%	39,8%
Czech	373	377	-1.1%	0.1%	-1.1%	12.2%	-22,2%	-2.3%	24.2%
Russia	205	201	1.8%	1.0%	2.8%	13.6%	42.9%	-88.2%	197,454
South Africa	8596	8616	-1.3%	0.5%	-0.8%	4.7%	2.2%	-2.5%	57.3%
Turkey	9920	9916	0.0%	0.0%	0.0%	30.1%	5.1%	-37.9%	485,4%
Greece	2383	2389	-0.3%	0.8%	0.5%	7.0%	-29.7%	-38.8%	102,2%

Equities begin tracing in Brazil, Argentina, and Maxico at 8:00 a.m., 9:00 a.m., and 9:30 a.m. Eastern line respectively.

Tuchband, Matthew

From:

Sharer, James

Sent:

Monday, October 29, 2001 4:44 PM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager,

Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Night Report 10/29/01

- -- U.S. equities sharply lower on profit-taking, concerns over the U.S. economy.
- -- Treasury prices stronger on reallocation from equities, flight-to-safety.
- -- Dollar weaker against the major currencies.
- -- Argentina asset prices substantially weaker, worries of debt default.

U.S. Markets

U.S. equity markets closed with sharp declines in active trading, pressured by profit-taking, weakness in the overseas equity markets and worries over upcoming U.S. economic data. Concerns over a potential Argentine debt default and a prolonged war against terrorism also weighed on stocks. Enron Corp. fell 10.3% to 13.81 on news that Moody's may downgrade its commercial paper rating. The worst stock performers were semiconductor, software, electrical equipment, financial and bank issues.

Treasury coupon prices were up 1/8 to 3/8 point in moderate trading, mainly reflecting substantial declines in the U.S. equity market, concerns over Argentina and worries over this week's slate of U.S. economic data (3Q GDP, October unemployment). Traders also noted a Fed coupon pass today totaling \$478 million (maturities of November 2021 to February 2029). Treasury announced today that it expects to borrow \$31 billion in marketable debt in the October-December 2001 quarter and to target a cash balance of \$35 billion on December 31. Treasury auctioned today \$15.0 billion 3-month and \$14.0 billion 6-month T-bills (an increase in size of \$1 billion each) to raise \$6.201 billion new cash. The results were as follows:

3-month T-bill awarded rate: 2.050% Coverage ratio: 2.17 times 6-month T-bill awarded rate: 2.005% Coverage ratio: 2.06 times

Today's awarded rates compare with last week's awarded rates of 2.170% and 2.130%, respectively. Separately, Treasury announced it will auctioned tomorrow \$12.0 billion 4-week T-bills to be issued November 1 and raise \$4.0 billion new cash. In WI trading the new 4-week bills were bid at 2.19%.

The November Federal funds futures contract feil 2 basis points to 2.21%, while the December and January contracts each fell 2 bps to 2.04% and 2.00%, respectively.

The December crude oil contract rose \$0.12 to \$22.15 a barrel on expectations of an OPEC reduction in crude oil output. The November natural gas contract climbed \$0.16 to \$3.20 per million btu. Spot gold rose \$1.50 to \$278.60 an ounce on some short-covering.

Global Markets

The dollar depreciated 1.3% against the euro and was 0.6% weaker against the yen. The dollar was 1.3% weaker against the British pound and 1.4% weaker against the Swiss franc (to a two-week low).

Latin American equity markets closed substantially lower, given worries over a potential Argentine default on its debt and weakness in the U.S. stock market. Argentina's Finance UnderSecretary Julio Dreizzen resigned, citing "personal reasons." The Merval index plunged 8.7%, while the Argentine FRB bonds fell 8 1/4 to 55 1/4. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 575 and 3600, respectively. Brazil's real and the Mexican peso were modestly weaker against the dollar. The Bovespa index fell 3.4%.

The EMBI+ spread widened 41 bps to 1054 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+167 to 2005), Brazil (+77 to 1204) and Mexico (+16 to 401). The Turkey sub-index rose 14 bps to 901.



Closing Global Financial Markets

October 29, 2001

Treasury Market A

TATION UNK, 622-2650

- -- U.S. equities sharply lower on profit-taking, concerns over the U.S. economy.
- Treasury prices stronger on reallocation from equities, flight-to-safety.
- Dollar weaker against the major currencies.
- -- Argentina asset prices substantially weaker, worries of debt default.

U.S. Markets

U.S. equity markets closed with sharp declines in active trading, pressured by profittaking, weakness in the overseas equity markets and worries over upcoming U.S. economic data. Concerns over a potential Argentine debt default and a prolonged war against terrorism also weighed on stocks. Enron Corp. fell 10.3% to 13.81 on news that Moody's may downgrade its commercial paper rating. The worst stock performers were semiconductor, software, electrical equipment, financial and bank issues.

Treasury coupon prices were up 1/8 to 3/8 point in moderate trading, mainly reflecting substantial declines in the U.S. equity market, concerns over Argentina and womes over this week's state of U.S. economic data (3Q GDP, October unemployment). Traders also noted a Fed coupon pass today totaling \$478 million (naturities of November 2021 to February 2029). Treasury announced today that it expects to berrow \$31 billion in marketable debt in the October-December 2001 quarter and to target a cash balance of \$35 billion on December 31. Treasury auctioned today \$15.0 billion 3-month and \$14.0 billion 6-month T-bills (an increase in size of \$1 billion each) to raise 36.201 billion new cash. The results were as follows:

3-month T-bill awarded rate: 2.050% Coverage ratio: 2.17 times 6-month T-bill awarded rate: 2.005% Coverage ratio: 2.06 times

Today's awarded rates compare with last week's awarded rates of 2.170% and 2.130%, respectively. Separately, Treasury announced it will auctioned tomorrow \$12.0 billion 4-week T-bills to be issued November 1 and raise \$4.0 billion new cash. In Willbrading the new 4-week bills were bid at 2.19%.

The November Federal funds futures contract fell 2 basis points to 2.21%, while the December and January contracts each fell 2 bps to 2.04% and 2.00%, respectively. The December crude oil contract rose \$0.12 to \$22.15 a barrel on expectations of an OPEC reduction in crude oil output. The November natural gas contract climbed \$0.16 to \$3.20 per million btu. Spot gold rose \$1.50 to \$278.60 an cunce on some short-covering.

Global Markets

The dollar depreciated 1.3% against the euro and was 0.6% weaker against the yen. The dollar was 1.3% weaker against the British pound and 1.4% weaker against the Swiss franc (to a two-week low).

Latin American equity markets closed substantially lower, given worries over a potential Argentine default on its debt and weakness in the U.S. stock market. Argentina's Finance UnderSecretary Julio Dreizzen resigned, citing "personal reasons." The Merval index plunged 8.7%, while the Argentine FRB bonds fell 8.1/4 to 55.1/4. Forward points on 1-month and 1-year Argentine peso NDFs were quoted at 575 and 3500, respectively. Brazil's real and the Mexican peso were modestly weaker against the dollar. The Bovespa index fell 3.4%.

The EMBI+ spread widened 41 bps to 1054 bps over the comparable Treasuries. A number of other EMBI+ sub-indexes also widened, including Argentina (+167 to 2005), Brazil (+77 to 1204) and Mexico (+16 to 401). The Turkey sub-index rose 14 bps to 901.

Equities	4:08 PM	Change
DITA	9,270	-2.90%
Nasdaq	1,790	-3.92%s
S&P 500	1,078	-2.38%
Wilshire Tet Mkt	10,032	-2.31%
DITA Vol.	91,512,100	
Canadian TSE	6,896	-1.55%
Moxican Bolsa	5,599	-1.65%
Brazilian Bovespa	11.377	-3.43%
German Dax	4,660	+3.32%
French CAC-40	4,183	+2.13%
U.K. FTSE	5,086	+0.98%
Nikkei-225	10,612	-1,67%

U.S. Treasuries	4:08 PM	Change bps
1-month bill	2.23%	-1
3-month bill	2.11%	-5
6-month bill:	2.06%	-3.
2-year	2.56%	+7
5-year	3.68%	-6
F6-year	4.48%	4
30-year	5.25%	-2

Money Markets	4:08 PM	Change bus
Overnight rate	2.50%	-6
December Fed		
Funds contract imp	2.03%	-
yid		

USD versus		4:08 PM	Change
Japanese yen		121.96	-5.58°c
Euro	5	0.9044	-1.33%
Storling	5	1.4541	-1.30%
Swiss franc		1.6286	×1.35%
Canadian dallar		1.5748	-0.09%
Mexican peso		9.264	0.29%
Brazilian roat		2.722	0.37%

Other cross rates	4:08 PM	Change
Eurotyen	110.34	0.62%
Euro/sterling	0.6222	0.19%

Commodities	4:08 PM	Change
Gold	\$278.60	51.50
Oil (Brent)	\$20.55	50.25
Near-dated NYMEX		
contract	\$22.35	\$0.32

				Service Contract of the Contra
ı	Tomorrow's Events:	Time	Consensus Expectation	Previous Period
ı	JPN Unemployment Rate, Sept.		5.1% m/m	5.0% m/m
	FRN Industrial Survey, Oct.		-53	-48
ı	ITL PPI, Sept.		+1.4% y/y	+1.2%
ı	US Consumer Confidence, Oct.	10 AM	95.0	97.6

For Internal Use Only

Drafted by: Jim Sharer 10/29/01 4:40 PM

GLOBAL FINANCIAL MARKETS 10/29/01 4:15 PM

			29-Oct		28-Oct			29-Oct	Friday's cla-	55	This week		This reag
SPERFORMANCE -	7 - 1 - 15-A	n gal	SPH SP	340.00	10011040	وإعاده	Mary Salas	的法外外的	(46%/50.0)	e) 5.72.	SMICH	1.5	400 N. C
Yen			124.97		122.70			-0.59%	122.70		-0.59%		+6256
Euro			0.9047		0.8932			4,27%	0.8932		-1,27%		-4.83% kg
Sterling			1.4539		1.4364			-1.20%	1.4364		-1.20%		-2.6354
Swiss			1.6286		1.6512			-1.37%	1.6512		-1.37%		-0.08%
Carodius 5			1.5751		1.5765			-8.09%	1,5765		-0.09%		<\$.87%b
Asstration 5			0.5458		0.5027			-4.61%	0.5027		-0.61%		-9.4956
Korean wen			1291.5		1294.5			-0.23%	1294.5		-0.23%		-2.64%
Indonesian rupiah Philippine pese			10278 51.93		10269 52.05			0.16%	10260 52.05		0.30%		-6.15%
Thai baht			44.80		41.88			-0.29%	44,88		-0.24% -0.19%		-3.85%
Tairran S			34.50		34.52			-0.05%	34.52		-0.19%		-3.21% -4.17%
Polish slety			4.088		4,091			-0.09%	4.091		-0.09%		1.09%
Russian ruble			29.69		29.71			-0.06%	29.71		-0.06%		-0.08%
South African rand			9.315		9.366			-0.54%	9.366		-0.56%		-22,73%
Mexican pero			9,272		9.237			0.37%	9.237		0.37%		1.82%
Brazilian reil			2.723		2.724			-0.04%	2,724		-0.04%		-38,64%
COMMODITIES		1.0	No. E. Co.	of a	10.1 (0.84	a-hy di		0.00					
Gold			\$279.90		\$277.41			0.54%	5377,40		0.54%		2,39%
European Brest			\$20.55		\$20.31			L18%	\$20,31		1.00%		48,99%
Near Nymes futures			\$21.15		\$22,03			0.54%	\$22.03		0.54%		-17.35%
CRB Index			\$185.68		\$184,49			0.65%	\$184.49		0.65%		-18.50%
HARM EQUITIES	winds of	old risk	ar (Militar	Ala se	Laborat Control	1-0%	Mark Gard	-garage	GAGE IN	GENERAL THE	5660	5	260,400
Daw Jones			9,230		9,545			-2.89%	9,545		-2,89%		-14.07%
Nasdaq			1,760		1,769			-3.93%	1,769		-3.93%		-31.21%
S&P 500		-	1,978		1,105			-2.38%	1,105		-2.38%		-1833%
Nikkei 225			110,012		10,795			-1.69%	10,795		-1.69%		-23.02%
Japan Tupis German DAX			1,093		1,101			-1.69%	1,161		-1,69%		-15,66%
French CAC-40			4,660		4,820			-3.32%	4,520		-3.32%		-27,56%
U.K. FTSE-100			5,036		5,189			-3.13% -1.98%	4,479		-2.13% -1.98%		-26.04%
H.K. Hang Song			10.178		10,405			-2.18%	5,189		-2.18%		-18.27% -32.58%
Kerran Kespi			548		543			0.8356	543		0.82%		9,57%
Tairran Wrighted			4,065		4.644			0.53%	4,044		0.53%		-14.31%
Polish Wig			13,957		13,595			0.45%	13,895		0.45%		-21,89%
South African JSE			4,616		8,574			0.49%	8,574		0.49%		3,48%
Mexicon Boba			5,599		5,693			-1.65%	5,693		-1.65%		-0.94*s
Brazilian Bosespa			11,377		11,781			-3.43%	11,781		-3.43%		-25,44%
Salki Statistical College	ris attitud	1500000	SECTION STATE	eritiness.	LESS NOT THE REAL PROPERTY.	200000	EU SESSO	resissant in	and the same of the same		man a	7800 670	Transcore or
vernight rate	2.49	1	0.05	•	3.76	-1	4.67	56	3.76	4	3.76	-1	2,72
month bill	2.11	-5	0.01	i	3.58	ů.	4.24	-2	3.42	-4	3.58	0	2.40
year bond	2.56	-7	0.12		3.20	-7	4.25	-5	3.21	-6	3.36	-7	3.85
year bond	3.68	-6	0.45		3.80	4	4,64	-5	3.56	-4	3.94	-5	4.27
l-year bond	4.48	-4	1.33		4.46	-3	4.65	-5	4.60	-3	4.90	-3	5.67
-year bond	5.25	-2	2.52	0	5.14	4	4,45	-8	5.22	-4	5.47	4	5.65
Marie Branch		200	Carlenge	1971	triving light to	200	Section 2	Columbia	Straige Co.	DOMESTIC:	of trail		2012/01
S FIXED INCOME	1 1/8/19	sear Fe		0-verel	article Total	480	10.	esp spread	7.10 **	PUSTS	ment in the	. Mil	UST spread

LS FIXED INCOME	Zecar Family	In year Parme	Iff-year emap spread	Z-18 year USF spread	2-Minear UST spread
Current	4.00	5.03	63	192	269
Bps change	unchanged	-6	0	3	5

EMERGING FIXED INCOME	Korra '05	Thebrd'II	Indenesia 196	Bussia Minfin '97	Prized PD1	
Cueroni Bys change	5.63 -7 Argentina Par	5.65 -15 <u>firaril C</u>	11.00 unchanged <u>Mexico Par</u>	13.72 unchanged Yenemela DCR	7.06 1	
Current	40.51	16.38	9.21	13.69		
Sps change	1185	76	1	14		

					Currence	ies			
	Unit Change (in local correscy terms)		Percent Change (In Dollars per Unit Te						
	29.Oct	26-Oct	29-0 cr	26-Oct	This week	This month	This year	In '80	In '99
Japan	121.97	122.70	0.6%	0.2%	0.6%	-2.0%	-6.6%	-11.9%	11.3%
Euro	0.9047	0.8932	1.3%	0.0%	1.3%	-0.8%	4.1%	-6.3%	-14.3%
EuroYen	110.35	109,72	0.6%	-0.2%	0.6%	1,4%	2,4%	4.4%	-22.3%
UK	1.4539	1.4364	1,2%	0.7%	1.2%	-1,4%	-2.6%	7.7%	-2.5%
Germany	2.1620	2,1898	1,3%	0.0%	1.3%	-0.5%	-4.2%	-6.8%	-13.8%
Australia	0.5058	0.5027	0.6%	-0.9%	0.6%	3.0%	-9.5%	-14.9%	-0.5%
Canada	1.5751	1.5765	0.1%	0.0%	0.1%	0.3%	-5.1%	-3.7%	-1.0%
Gold	278.90	277.40	0.5%	0.3%	0.5%	-4.8%	2.4%	-5.5%	-0.4%
Theiland	44.80	44.88	0.2%	-0.2%	0.2%	-0.8%	-3.2%	-15.7%	-2.3%
Indonesia.	10,270	10260	-0.1%	0.0%	-0.1%	-5.8%	-6.1%	-38.5%	14,5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Philippines	51.93	52.05	0.2%	0.0%	0.2%	-1.1%	-3.8%	-24.1%	-4.2%
South Korea	E,292	1295	0.2%	-0.1%	0.2%	1.4%	-2.1%	-11,4%	6.0%
Taiwan	34.50	34.52	0.1%	0.1%	0.1%	0.0%	-4.2%	-5.5%	2,7%
Singapore	1.8284	1.8275	0.456	-0.3%	0.0%	-3.5%	-5.5%	-4.1%	-1.0%
China	8.28	8.28	0.016	0.0%	0.0%	0.0%	0.0%	0.0%	0.004
Bezzil	2,7230	2.7240	0.0%	-0.3%	0.0%	-2.0%	-39.6%	-8.0%	-33.1%
Mexico	9.2715	9.2370	-0.4%	0.2%	-0.4%	2.4%	3.8%	-1.4%	4.1%
Chile	715.95	715.15	-0.1%	-0.3%	-0.1%	-3.3%	-24.8%	-8.3%	-10.7%
Colombia	2,310.25	2314.75	0.2%	0.1%	0.2%	1.0%	-3.3%	-19.3%	-17.3%
Venezuela	744.00	743.45	-0.1%	0.0%	-0.1%	-0.2%	-6.4%	-7.8%	-13.0%
Poland	4.0875	4.0913	0.3%	0.3%	0.1%	3.3%	1.1%	0.1%	-15.1%
Hungary	280.61	283.16	0.95%	0.1%	0.9%	0.456	0.0%	-11.0%	-14.5%
Czech	37.083	37.694	1.6%	0.1%	1.4%	0.5%	1,4%	-5.1%	-15.7%
Russia	29.692	29.711	0.1%	-0.3%	0.1%	-0.8%	-4,0%	-3.6%	-25.2%
South Africa	9.3150	9.3656	0.5%	0.4%	0.5%	-3.1%	-22,7%	-23.5%	-4.5%
Turkey	1,610,000	1,610,000	0.0%	0.0%	0.0%	-5.2%	-040,2%	-23.6%	41.9%
Greece	376.67	381.52	1.3%	0.0%	1.3%	-0.8%	-4.2%	-10.2%	-13.9%

			I	quities (In	local curr	ency terms)		
	Unit Cl	iange			rcent Change				
	29-Oct	26-Oct	29-Oct	26-Oct	This wik	This mo	This pr	In '80	In '99
Dow	9270	9545	-2.9%	0.9%	-2.9%	4.8%	-14.1%	-6.2%	25,2%
Norday	1700	1769	-3.9%	-0.4%	-3.9%	13.4%	-31.2%	-39.3%	85,6%
Nikkel	10612	10795	-1.795	-0.8%	-1.7%	8.6%	-23.0%	-27.2%	36.8%
FT-SE 189	5086	5189	-2.054	2.0%	-2.0%	3.7%	-18,3%	-10.2%	17.8%
DAX	4660	4820	-3.3%	2.2%	-3.3%	8.2%	-27,6%	-7.5%	39.1%
CAC-10	4383	4479	-2.1%	2.3%	-2.1%	7.5%	-26.4%	-0.5%	51.1%
Thailand	278	281	-0.9%	0.0%	-0.9%	9.4%	3.3%	-44.1%	35.4%
Indoneyia	384	388	-0.9%	-0.7%	-0.9%	-2.1%	-7.75%	-38,5%	70.1%
Mulaysia	606	612	-1.1%	-0.4%	-1.1%	-1.6%	-10.9%	-16.3%	38.6%
Philippines	995	1003	-0.8%	1.3%	-0.8%	-11,7%	-33.4%	-30.3%	8.8%
Hong Kong	10178	10405	-2.2%	1.6%	-2.2%	2.3%	-32.6%	-11.0%	68.8%
South Korea	548	543	0.8%	0.2%	0.8%	14.2%	8.6%	-50.9%	82.8%
Taiwan	4065	4044	0.5%	0.8%	0.5%	11.8%	-14.3%	-43.9%	31,6%
Singapore	1394	1411	-1.2%	0.1%	-1.2%	5.6%	-27,7%	-22.3%	78.0%
China	157	156.10	0.6%	0.7%	0.6%	3.7%	75.4%	136.2%	32.0%
Brazil*	11377	11781	-3.4%	0.5%	-3.4%	7.0%	-25,4%	-10.7%	151.9%
Acgentina*	220	240	-8.7%	-2.2%	-8.7%	-9.9%	-47.3%	-24.3%	28.0%
Mexico*	5599	5693	-1.7%	-0.6%	-1.72%	3.6%	-0.9%	-20.7%	80.1%
Chile	103	105	-1.6%	1.3%	-1.6%	4,4%	7.0%	-32,6%	41.8%
Colombia	819	813	0.6%	0.2%	0.6%	-12.196	14.9%	-28.6%	-9.3%
Venezuela	6669	6692	-0.4%	0.3%	49.456	-53%	-2.3%	26.0%	14.8%
Poland	13957	13895	0,4%	3,4%	0.456	17.4%	-21.8%	-1.3%	41.3%
Hungary	6823	6809	0.256	3.0%	0.2%	10.5%	-13.1%	-11.0%	39.8%
Czech.	377	377	0.1%	2.2%	0.1%	13.5%	-21.3%	-3.3%	24.2%
Russia	204	199	1.0%	1,7%	1.0%	11.5%	40.3%	-18.2%	197.4%
South Africa	8616	8574	0.5%	-0.2%	0.5%	6.0%	3.5%	-2.5%	57.3%
Turkey	9916	9916	0.0%	6.1%	0.0%	30.0%	5,1%	-37.9%	485,4%
Grecce	2389	2370	0.8%	0.2%	0.8%	7.3%	-29.5%	一方意。整节位	102.2%

Equities begin trading in Brazil, Argentina, and Mexico at 8:00 a.m., 9:00 a.m., and 9:30 a.m. Eastern time respectively.

Tuchband, Matthew

From: Cetina, Jill

Sent: Monday, October 29, 2001 12:27 PM

To: DL Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul

Reid; PMalmgren; Wayne

Subject: Financial Market Noon Report, Oct 29th

-- Participants continue to positions for weak U.S. data.

-- Argentine debt weakens further.

- Enron downgraded by Moody's.

U.S. Markets

Equities: U.S. equity indices are lower in active trading, mainly reflecting profit-taking and large declines in overseas bourses. Investors were nervous over this week's slate of economic data -- consumer confidence, NAPM, 3Q GDP and the Oct employment report. Womies over a possible Argentina default put pressure on financial stocks. The Dow was off 2%, led by declines in GE, Citigroup and Boeing (which lost the JSF contract on Friday). Echostar Communications agreed to purchase GM's Hughes Electronics unit for \$26 hillion. (JSharer 2-2042)

Treasuries: The 2-year note has extended its gains in NY trading, steepening the Treasury curve further, on concerns about Argentina, weakness in stocks and expectations of weak data. The 10-year Treasury is reportedly sitting near a key technical resistance level. The Fed conducted a \$478 M coupon pass in the '21 to '29 sector, lending support to the back of the curve. Contacts described volume today as light. Yields on near-dated Fed fund futures have declined 2 to 3 bps ahead of expectations for weak U.S. data. (JCetina 2-2017)

U.S. fixed income: Moody's cut Enron's long-term credit rating from Baa1 to Baa2, noting the firm's significant write-downs due to private partnerships, and suggested it may lower the rating further as well as cut Enron's current P2 commercial paper rating. Enron constitutes about 25% of online energy trading in the U.S. Several contacts called in to highlight the possible significance of Enron's credit woes for the U.S. economy. AT&T may place S5 to 7 B in bonds in the next 2 weeks to refinance maturing commercial paper. (JCetina 2-2017)

Global Markets

Fx: The USD extended its losses against European currencies in the NY morning as stocks traded lower and key technical levels were broken. Dealers report both real money and model-based accounts buying euro on expectations of weakness U.S. data. However, dealers reported flows were not one-way as U.S. corporates sought to hodge euro exposure. (JCetina 2-2017)

Europe: European bourses closed 2.1% to 3.0% weaker in thin volume, pressured by profit-taking and declines in tech and telecom issues. Investors are apprehensive over upcoming U.S. data, although weak data may encourage further rate cuts from the ECB and BOE. German bund yields fell 3 to 6 bps, while U.K. gilt yields are down 2 to 8 bps, given the weaker equity markets. (JSharer 2-2042)

Latin America: Over the weekend, Economy Minister Cavallo stated he is seeking to "improve the probability of repayment so as to reduce overall debt financing costs and lower interest rates for the economy." However, the main topic continues to be the appointment of Merrill Lynch's Frenkel to lead a debt restructuring. Participants also noted the arrival of an IMF team, which supposedly is in town to review Argentina's program for possible early release of the \$1.2 billion Dec trunche. Argentine bonds continue to trade lower with the Argentine EMBI+ spread rising 120 bps to 1958 bps, a fresh high, and prices on the 08' and FRB are down 6 and 7.1/2 points, near lifetime lows. White most participants are focused on announcements from the Argentine government. Oct. tax receipts, due out towards the end of this week, are rumored to drop by 8% y/y. Argentina's EMBI+ spread widened about 200 bps in the days following the release Sept. tax receipt data. (JOetina 2-2017)

Noon Global Financial Markets

10/29/01 12:24 PM

<u>U.S. Markets</u> Equities: U.S. equity indices are lower in active trading, mainly reflecting profit-taking and large declines in overseas bourses. Investors were nervous over this week's state of economic data — consumer confidence, NAPM, 3Q GDP and the Oct employment report. Worries over a possible Argentina default put pressure on financial stocks. The Dow was off 2%, led by declines in GE, Citigroup and Boeing (which lost the JSF contract on Friday). Echostar Communications agreed to purchase GM's Hughes Electronics unit for \$26 billion. (JSharer 2-2042)

Treasuries: The 2-year note has extended its gains in NY trading, steepening the Treasury curve further, on concerns about Argentina, weakness in stocks and expectations of weak data. The 10-year Treasury is reportedly sitting near a key technical resistance level. The Fed conducted a \$478 M coupon pass in the '21 to '29 sector, lending support to the back of the curve. Contacts described volume today as light. Yields on near-dated Fed fund futures have declined 2 to 3 bps ahead of expectations for weak U.S. data. (3Cetina 2-2017)

U.S. fixed income: Moody's cut Enron's long-term credit rating from Baal to Baa2, noting the firm's significant write-downs due to private partnerships, and suggested it may lower the rating further as well as cut Enron's current P2 commercial paper rating. Enron constitutes about 25% of online energy trading in the U.S. Several contacts called in to highlight the possible significance of Enron's credit woes for the U.S. economy. AT&T may place \$5 to 7 B in bonds in the next 2 weeks to refinance maturing commercial paper. (JCetina 2-2017)

Global Markets: Fx: The USD extended its losses against European currencies in the NY morning as stocks traded lower and key technical levels were broken. Dealers report both real money and model-based accounts buying euro on expectations of weakness U.S. data. However, dealers reported flows were not one-way as U.S. corporates sought to hedge euro exposure. (JCetina 2-2017)

Europe: European bourses closed 2.1% to 3.0% weaker in thin volume, pressured by profit taking and declines in tech and telecom issues. Investors are apprehensive over upcoming U.S. data, although weak data may encourage further rate cuts from the ECB and BOE. German bund yields fell 3 to 6 bps, while U.K. gilt yields are down 2 to 8 bps, given the weaker equity markets. (JSharer 2-2042)

Latin America: Over the weekend, Economy Minister Cavallo stated he is seeking to
"improve the probability of repayment so as to reduce overall debt financing costs and lower
interest rates for the economy." However, the main topic continues to be the appointment of
Metrill Lynch's Frenkel to lead a debt restructuring. Participants also noted the actival of an
IMF team, which supposedly is in town to review Argentina's program for possible early
release of the \$1.2 billion Dec tranche. Argentine bonds continue to trade lower with the
Argentine EMBI+ spread rising 120 bps to 1958 bps, a fresh high, and prices on the 08' and
FRB are down 6 and 7 1/2 points, near tifetime lows. While most participants are focused
on announcements from the Argentine government, Oct. tax receipts, due out towards the
end of this week, are rumored to drop by 8% y/y. Argentina's EMBI+ spread widened about
200 bps in the days following the release Sept. tax receipt data. (JCetina 2-2017)

Equition	12:24 PM	Change
DJIA	9,353	-2.000
Number	1,736	-1.85° v
S&P 190	1,088	-1.48%
Wilhling Tot Mic.	30,043	-1.40%
DHA Val.	95,398,000	
Caraciun TSE	6,940	-0.93%
Mexican Belsa	5,632	-0.09%
Brzeil an Berespe	11,468	-2.6e%
German Dan	4,680	-2.12%
French CAC-40	4,383	-2.13%
U.K. FTSE	5,086	-0.9881_{44}
Nikkai +225	10,612	-1.694a

U.S. Treasuries	12:24 PM	Change has
1-month bill	2.22%	-2
3-receth NI.	2.12%	-4
6-month bill.	2.07%	-2
2-year	2.56%	
5-year	3.68%	-5
10-year	4,48%	-+
31-year	5.25%	-3

Money Markets	12:24 PM	Change bps
Overnight rate	2,50%	-5
Decoration Fed Funds contract into yield	2.04%	-3

USD performance vy		12:24 PM	Change
Eugenmone you		122.84	-0.52%
Euro	8	0.9036	-1.24%
Storling	5	1.4525	-0.19%
Swiss franc		1.6318	4.10%
Canadian dellar		1.5745	40.00%
Moxicum pese		9.253	6.12%
Brazilian real		2,726	0.52%

Other cross rates	12:24 PM	Charge
Buro/yan	110.28	0.57%
Guro/sterling	0.6218	0.13%

Cammoditica	12:24 PM	Change
Geld	\$278.70	\$1.60
Oil (Brent)	\$20.52	90.22
Near-dated NYMEX futures contract	\$22.25	50.22

Today's Events:

Actual.

Previous Period

Consensus Expectation

For Internal Use Only

Drafted by: 24 Cetina 10/20/01 12:24 PM

			29-Oct		28-Oct			29-Oct	Friday's ch		This week		This year
S PERFORMENCE	17-19 REME	12584	TERMINE.	(3/8)(14		SERVICE.	1990年	Salterelcay	Unapplica	CHANGE	intd4:	- 6	ASSESS A
Yes			122.07		122,70			-0.52%	122.7	0	-0.52%		-6.70%
Euro			0.9437		0.8932			-4.17%	0.893	ž.	-1.17%		-4.13%
Sterling			1.4527		1.4364			-1.12%	1.436		+1.12%		-2.7154
Swiss			1.6325		1,6512			-1.13%	1.6513		-1.13%		-1.33%
Canadian 5			1.5747		1.5765			-0.12%	1.5368		-0.12%		-5.64%
Australian 5			0,5058		0.5027			-4.61%	0,502		-0.61%		-9.49%
Kerma won Jedonesian rugiah			1351.5		1254.5 10260			-4.23%	1294,5		-0.23%		-2.69%
Philippins pero			51.93		52.05			0.10%	10260 52.05		0.10%		-6.15%
Thai bohi			44.79		44,88			-0.20%	44.89		-0.24%		-3.85%
Taiwan S			34.50		34.52			-0.06%	34.53		-0.20%		-3.20%
Polish zloty			4.085		4.091			-0.09%	4.091		-0.86%		1,09%
Russian rubie			29.71		29.71			0.00%	29.71		0.00%		4.10%
South African rand			9,518		9.366			-0.50%	9.366		-0.50%		-22,77%
Musican peso			9,235		9.237			-0.02%	9.237		-0.02%		4.21%
Beasilium resil			2.728		2.724			0.15%	2.724		0.15%		-39.50%
													40.00
COMMODITIES		-1275	estr t		-	Congleton	oks i grafia	or pro-	-1,250	5000			50 -917
Geld			\$279.10		\$277,40			0.61%	\$277.40		0.61%		2.46%
European Brent			520.63		\$20.31			1.58%	520.31		1.58%		-0.64%
Near Numex futures			522.37		522.03			1.54%	522,03		1.54%		-16.53%
CRB Index			\$185,36		\$184.49			0.47%	\$184.49		0.47%		-18.64%
- EQUITIES	amount		vatárbosi.	MATERIAL	The Ballion	ENGINE.	soliday day	C 40 75 2	colo etè Meca	COURS NO.	(New York or and	_	-pháince
	-	-	9,342	-	9,545	- Contraction							
Daw Jones Nosday			1,736		1,769			-2.13% -1.89%	9,545 1,769		-3.13%		-13.40%
S&P 500			1,097		1,105			-1.58%	1,105		-1.85% -1.58%		-29,72% -17,66%
Nikitoti 225			10,612		10,395			-1.69%	10,795		-1.69%		-23,0214
Japan Topix			1,083		1,101			-1.69%	1,101		-1.49%		-05.6675
German DAX			4,682		4,820			-2.87%	4,920		-2.87%		427,23%
French CAC-48			4,383		4,479			-2.13%	4,479		-2.13%		-20.64%
U.K. FTSE-000			5,000		5,189			-1.58%	5,189		-1.98%		-18.27%
H.K. Hong Seng			10,178		10,405			-2.18%	10,405		-2.18%		-32,58%
Korum Kospi.			546		543			0.82%	543		0.82%		8,57%
Taiwan Weighted			4,665		4,044			0.53%	4,044		0.53%		-14.31%
Polish Wig			13,957		13,895			0.45%	13,895		0.45%		-21,80%
South African JSE			8,616		8,574			0.49%	8,574		0.49%		3.48%
Mexican Bulca			5,634		5,693			-1.43%	5,693		-1.03%		-0.31%
Brazilian Bovespa			11,591		11,781			-1.61%	11,781		-1.61%		-24.04%
						-	-						
Salah pangangangan		T .	ACTACE REPORTED IN	Interes	activities				The same of		TO BE THE PARTY OF		-
vernight rate month bill	2.49	4	0.05	0	3,55		4.67	56	3,77	0	3.77		2.72
vear hond	2.12	-6 :	0.12		3,20		4.24	-2 -5	3.44	-2	3.58	-7	1.39
year nond year hond	3.68	-6	0.45	ě	3,80	-1	4.63	-6	3.56	-6 -4	3.94	-5	3/86
-year none -year bond	4.45	-0	1.33		4.46	3	4.64	-6	4.60	-3	4.79	-3	4.26 5.06
-year bend	5.24	3	2.52	ě	5.14	4	4.45	-8	5.21	4	5.47	-4	5.62
7 7.440			2178		2.174			-		-	2.41		3.44

LS FIXED INCOME	2 var Fame	three Family	If your smap special	E 80 year UNI spread	1-Moveer UST spread
Current	6.00	5.04	64	191	267
Bps change	unchanged	-3	1	2	3

EMERGING FIXED INCOME	Korea '48	Thailand '11	Indoposis 186	Russia MinFin '87	Poland PD1	
Current	5.63	5.68	11.08	13.70	7.05	
Apa change	-7 A monadan Bur	-15	unchanged Marine Per	unchanged	0	
	Arventino Par	Brazil C	Mexico Par	Venezuela DCB		
Current	42.08	16.13	9.21	13.78		
Bps change	1042	50	2	23		
			-			

					Currenci	ies			
	Unit Change (In			- Para	out Change	(In Dollars	nete Klerik To		
	29-0ct	26-Oct	29-Oct	26-0a	Dita sook	This mouth			2- ma
					Lina more	Curs avague	This year	In '60	In '99
Гаран.	122.07	122.70	0.5%	0.2%	0.5%	-2.1%	-6.7%	-11.9%	11,3%
Euro	0.9037	0.8932	1,2%	0.0%	1.2%	-0.9%	-4.2%	-6.3%	-14.3%
EuroYen	110.32	109.72	0.5%	-0.2%	0.5%	1.4%	2.4%	4,4%	-22.3%
UK	1.4527	1.4364	1.4%	0.7%	1.1%	-1.5%	-2.7%	-7,7%	-2.5%
Germany	2.1641	2.1898	1.2%	0.0%	1.2%	-0.9%	-4.3%	-6.8%	-13.8%
Australia	0.5058	0.5027	0.6%	-0.9%	0.6%	3.0%	-9.5%	-14,9%	-0.5%
Canada	1.5747	1.5765	0.1%	0.0%	0.1%	0.3%	-5.0%	-3.7%	-1.0%
Gold	279.10	277.40	0.6%	0.3%	0.6%	-4.7%	2,5%	-5.5%	-0.4%
Thailand	44.79	44,88	0.2%	-0.2%	0.2%	-0.8%	-3,2%	-15.7%	-2.3%
Indonesia	10,270	10260	-0.1%	0.0%	-0.1%	-5.8%	-6.1%	-38.5%	14,5%
Malaysia	3.80	3.80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.95%
Philippines.	51.93	52.05	0.2%	0.0%	0.2%	-1.1%	-3.8%	-24.1%	-4.2%
South Korea	1,292	1295	0.2%	-0.1%	0.2%	1.056	-2.1%	-11.4%	6.0%
Taiwan	34.50	34.52	0.1%	0.1%	0.1%	0.056	4.2%	-5.5%	2.7%
Singapore	1.8290	1.8275	-0.8%	-0.3%	-0.1%	-3.6%	-5.5%	4.1%	-1.0%
China	8.28	8.28	0.0%	0.0%	0.0%	0.0%	0.0%	0.056	0.0%
Beazil	2,7280	2.7249	-0.1%	-0.3%	-0.1%	-2.2%	-39.9%	-8.0%	-33.1%
Mexico	9.2350	9.2370	0.0%	0.2%	0.04%	2.8%	4.2%	-1.4%	4.1%
Chile	715.95	715.15	-0.1%	-0.3%	-0.1%	-3,3%	-24,8%	-8.3%	-10.7%
Colombia	2,308.35	2314.75	0.3%	0.1%	0.3%	1.1%	-3.2%	-19.3%	-17,3%
Venezuela	743.00	743.45	0.1%	0.0%	0.1%	-0.1%	-6.2%	-7.8%	-13.0%
Poland	4.0875	4.0913	0.1%	0.3%	0.1%	3.3%	1.1%	0.1%	-15.1%
Hungary	280,90	283.16	0.8%	0.1%	0.8%	0.3%	-0.1%	-11,059	-14.5%
Csech	37.125	37.694	1.5%	0.1%	1.5%	0.3%	1.3%	-5.1%	-15.7%
Russia	29.712	29.711	0.05%	-0.3%	0.4%	-0.8%	-4.1%	-3.6%	-25.2%
South Africa	9.3185	9.3656	0.5%	0.4%	9.5%	-3.2%	-22.8%	-23.5%	-4.5%
Turkey	1,610,000	1,610,000	0.0%	0.0%	0.0%	-5.2%	-140.2%	-23.6%	-41.9%
Greece	377.04	381.52	1.2%	0.0%	1.2%	-0.9%	-4,3%	-10.2%	-13.9%

			I	quities (In)		
	Unit Cl		-		reent Change	177-2			
	29-0vt	26-0cr	29-Oct	26-Oct	This we	This mo	This pr	In '06	[n '99
Dow	9342	9545	-2.1%	0.9%	-2.1%	5.6%	-13.4%	-6.2%	25.2%
Narday	1736	1769	-1.9%	-0.456	-1.9%	15.8%	-29.7%	-39.3%	85.6%
Nikkei	10612	10795	-1.7%	-0.8%	-1.7%	8.6%	-23.0%	-27.2%	36.8%
FT-SE 100	50.86	5189	-2.0%	2.0%	-2.0%	3.7%	-18.3%	-10.2%	17.8%
DAX	4682	4820	-2,9%	2.2%	-2.9%	8.7%	-27.2%	-7.5%	39.1%
CAC-48	4383	4479	-2.1%	2.3%	-2.1%	7.5%	-26.0%	-0.5%	51.1%
Thoiland	278	281	-0.9%	0.0%	-9.95%	0.4%	3,3%	-44.1%	35,4%
Indonesia	384	388	-0.9%	-0.7%	4.9%	-2.1%	-7,7%	-38.5%	79.1%
Malaysia	606	612	-1.1%	-0.4%	-1.1%	-1.6%	-10.9%	-16.3%	38.6%
Philippines	995	1003	-0.8%	1.3%	-0.8%	-11.7%	-33.4%	-30.3%	8.8%
Hong Kong	10178	10405	-2.2%	1.6%	-2.2%	2,3%	-32,6%	-11.0%	68.8%
South Korea	548	543	0.8%	0.2%	0.8%	84,2%	8,6%	-50.9%	\$2.8%
Taiwan	4065	4944	0.5%	0.8%	0.5%	11.8%	-14.3%	-43.9%	31.6%
Singapore	1394	1411	-1.2%	0.1%	-1.2%	5.6%	-27,7%	-22.3%	78.0%
China	157	156.10	0.6%	0.7%	0.6%	3.7%	75.4%	136,2%	32.0%
Brazil*	11591	11781	-1.6%	0.5%	-1.6%	9.0%	-24.0%	-10.7%	151.9%
Argentina*	230	240	-4.4%	-2.2%	-4.4%	-5.6%	44.9%	-24,3%	28.0%
Mexico*	5634	5693	-1.0%	-0.6%	-1.0%	4.3%	-0.3%	-20.7%	80.1%
Chile	105	105	0.1%	1.3%	0.1%	6.3%	8.9%	-32.6%	41.8%
Colombia.	813	813	0.0%	0.2%	0.0%	-12.7%	14.1%	-28.6%	-9.3%
Venezuela	6692	6692	0.0%	0.3%	0.05%	-5.0%	-4.9%	26.0%	14.8%
Poland	13957	13895	0.4%	3.4%	0.4%	17.4%	-21.8%	-1.3%	41,3%
Hungary	6823	6809	0.2%	3,0%	0.2%	10.5%	-13.1%	-11.0%6	39.8%
Czech	377	377	0.1%	2,2%	0.1%	13.5%	-21.3%	-2.3%	24,256
Russia.	204	199	1.0%	1.7%	1.0%	11.5%	49.3%	-18.2%	197,4%
South Africa	8616	8574	0.5%	-0.2%	0.5%	6.0%	3.5%	-2.5%	57.3%
Turkey	9914	9916	0.0%	6.156	0.0%	30.0%	5.1%	-37.9%	485,4%
Greece	2389	2370	0.8%	0.2%	0.8%	7,3%	-29.5%	-38,8%	102.2%

^{*} Equition begin tracing in Brazil, Argentina, and Mexico at 5:00 a.m., 9:00 a.m., and 9:30 a.m. Eastern time respectively.

Lebryk, David

From: Lebryk, David

Sent: Friday, November 30, 2001 10:39 AM

To: Wiss, Barbara

Subject: FW: Market Morning Report, Nov.

Interesting piece on Japanese Money Market Funds below.

-----Original Message-----From: Cetina, Jill

Sent: Friday, November 30, 2001 8:00 AM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman;

MegLundsager; Paul Reid; PMalmgren; Wayne Subject: Market Morning Report, Nov 30th

- Little apparent impact of MSCI reweighting on Nikkei and fx in Asian session; participants now look forward to London and NY closes for possible flows.
- Enron woes spillover to Japanese money market funds, forcing a response from BOJ.
- -- Revised Q3 GDP and Chicago PMI due out later this morning.

Global Markets Fx: The dollar is little changed against the yen and modestly weaker against the euro with dealers reporting moderate flows but no massive business thus far from the MSCI reweighting. The Swiss franc remains weak following unsupportive comments from the SNB's Roth yesterday and weaker-than-expected Swiss leading indicators today.

Japan: Nov Tokyo CPI fell by 0.2% m/m sa, the biggest y/y decline since last Oct. Unemployment edged up to 5.4%, a fresh record high, but in line with forecasts. Household spending came in better-than-expected, rising 3.1% m/m sa, the first rise since March. Some contacts dismissed the spending data as due to one-off factors. The Nikkei ecked out modest gains despite the weak data and today's MSCI reweighting.

The BOJ injected an additional Y5 trillion into the money market, increasing current account balances to Y14 trillion -- the highest level since Mar '00. The move was in response to withdrawals from money management funds. While five money funds' values fell below par as a result of their holdings of yen denominated paper issued by Enron, redemptions reportedly spread to other money funds not holding Enron paper. The injection of liqudity was readily absorbed by Japanese financial instituions and had no immediate impact on the yen. JGB yields fell 1 to 3 bps across the coupon curve with the intermediate portion of the curve performing well despite fresh issuance today in the 5-year sector.

Emerging Asia: Fitch cut the outlook on Indonesia's I-term foreign currency rating to stable from positive, citing recent indications Indonesia might grant comparable treatment to its 06' Yankee bond in upcoming Paris Club negotiations. Moody's upgraded South Korea's outlook to positive from stable, signalling an upgrade could be in the cards if Korea makes further progress on corporate and financial sector reforms. The Korean Kospi extended its gains while better-than-expected Q3 GDP data out of

Hong Kong bolstered shares on the Hang Seng.

Europe: Euro-area fixed income is rallying with the short-end outperforming on the hope better-than-expected consumer and producer price data could increase the near-term prospect of an ECB rate cut and playing catch up to Treasuries' afternoon gains yesterday. The ECB meets next Thursday. European bourses are higher, bolstered by gains in telecom shares.

U.S. Markets Treasury prices are little changed this morning, retracing earlier weakness in longer-dated issues during the Asian session. Dealers report two-way flows but trading remains choppy ahead of month-end and, for some firms, year-end closings today. U.S. equity index futures are little changed. Some contacts note today's WSJ article that Merrill Lynch is in merger talks with several suitors. Attention now turns to Q3 GDP and Chicago PMI data as well as comments from Fed officials (including Chairman Greenspan) due to speak later today.

Today's Events:	Actual	Consensus Expectation	
Previous Period			
Japan unemployment rate, O	ct. 5.4%		
5.4%	5.3%		
Tokyo consumer prices, Nov	v, sa -0.2% m/m	-0.1% m/m	
0.4% m/m			
French unemployment, Oct.	8.9%		
9.0%	9.1%		
Eurozone CPI, Nov.	2.1% y/y	2.2% y/y	
2.4% y/y			
U.S. Q3 GDP 1st revision	8:30 a.m.	-1.0%	
-0.4%			
Canadian Q3 GDP 1st revisi	on 8:30 a.m.	-0.6%	
-0.4%	0100 01111	3.070	
Chicago PMI, Nov	10:00 a.m.	45.5	
46.2	10.00 unn	147.44	

Lebryk, David

From:

Lebryk, David

Sent:

Monday, November 05, 2001 12:37 PM

To:

Reid, Robert

Subject:

FW: Financial Markets Morning Report 11/5/01

This report is distributed two or three times a day.

-----Original Message-----From:

Sharer, James

Sent:

Monday, November 05, 2001 8:12 AM

To:

DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp;

Shevlin, Thomas; wallarjg; wayneea

Subject:

Financial Markets Morning Report 11/5/01

- -- Global equity markets were mostly firmer; Royal Dutch may purchase Enron; Boeing wins \$6.6 billion order for 25 aircraft from Emirates.
- -- Dollar strengthened vs. the euro and sterling on weak economic data and an FT report stating that an EMU member (Italy) deliberately manipulated budget data.

Foreign Markets

Japan: Japan's leading diffusion index fell to 37.5 in September from a revised 50.0 in September, as expected. The BOJ's Suda played down the threat of intervention, suggesting that intentionally weakening the yen may be harmful, but a "natural" decline would be tolerated. The Nikkei 225 index and the TOPIX index edged up 0.6% and 0.1%. JGB yields were unchanged to down 2 bps in thin trading, with the JGB 10- and 30-year yields at 1.30% and 2.40%, respectively.

Emerging Asia: Emerging Asian stock markets were mostly higher. The Hang Seng, Talwan and Kospi indexes rose 2.0% to 2.4%. However, the Thai, Jakarta and Kuala Lumpur indexes posted modest declines. Singapore's ruling People's Action Party won 75% of the popular vote in the general election on Saturday.

Europe: Euro Area HICP index rose 2.4% y/y in October, marking the fifth month decline, roughly as expected. However, U.K. economic data on September industrial production and October PMI services were much weaker than anticipated, raising expectations for a possible 50 bps easing by the BOE this Thursday. The ECB policy board is also scheduled to meet on Thursday. However, BBK President Welteke played down the chances of an ECB rate cut, stating that further ECB easing could pump up liquidity too much and fuel inflation expectations. European stock bourses were stronger by 0.8% to 2.3%, with the DAX outperforming. German bund yields were lower by 1 to 5 bps, while U.K. yields were down 3 to 17 basis points.

Brent crude oil is currently up \$0.60 to \$19.22 a barrel, marking the 32nd day below the \$22 a barrel level. OPEC officials continued to indicate that a 1 million bpd production cut was possible.

Turkey: Turkey's National 100 index was up 0.9% to 10,158 and the lira was 1.0% firmer to TRL 1,555,000. Hopes for IMF aid offset news of a larger-than-expected 6.6% m/m rise in the October CPI. The Turkish EMBI+ sub-index rose 38 bps to 934 bps, while the overall EMBI+ narrowed 8 bps to 1112 bps.

Latin America: The Argentine EMBI+ sub-index narrowed 55 bps to 2530 bps, while Brazil's EMBI+ sub-index narrowed 20 bps to 1165 bps. Argentina's Cavello will hold a press conference at 11 AM.

U.S. Assets Overnight
Treasury coupon prices are currently up 1/8 to 5/8 point in light trading ahead of the 10 AM release of the October nonmanufacturing NAPM index. The Dow, S&P 500 and Nasdaq index futures are indicating moderate strength at the New York open.

Today's Events:	Actual	Consensus Expectation	Previous Period
JPN Leading Diffusion Index, Sept.	37.5	37.5	50.0 (was 55.6)
EUR Prelim. HICP, Oct.	+2.4% y/y	+2.4% y/y	+2.5% y/y
UK PMI Services, Oct.	46.3	46.0	48.1
UK Industrial Production, Sept.	-1.2% m/m	-0.5% m/m	+1.0% m/m
US Non-manufacturing NAPM, Oct.	10 AM	47.0	50.2



Lebryk, David

From: Lebryk, David

Sent: Friday, November 30, 2001 10:42 AM

To: Cetina, Jill

Subject: RE: Market Morning Report, Nov.

Jill -- If you happen to come across any more detailed stories re: the Japanese Money Market Funds (see below), could you pls forward them to me either electronically or in hard copy (Rm 2040 MT).

Thanks.

Dave

-----Original Message-----

From: Cetina, Jill

Sent: Friday, November 30, 2001 8:00 AM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman;

MegLundsager; Paul Reid; PMalmgren; Wayne Subject: Market Morning Report, Nov 30th

- Little apparent impact of MSCI reweighting on Nikkei and fx in Asian session; participants now look forward to London and NY closes for possible flows.
- Enron woes spillover to Japanese money market funds, forcing a response from BOJ.
- Revised Q3 GDP and Chicago PMI due out later this morning.

Global Markets Fx: The dollar is little changed against the yen and modestly weaker against the euro with dealers reporting moderate flows but no massive business thus far from the MSCI reweighting. The Swiss franc remains weak following unsupportive comments from the SNB's Roth yesterday and weaker-than-expected Swiss leading indicators today.

Japan: Nov Tokyo CPI fell by 0.2% m/m sa, the biggest y/y decline since last Oct. Unemployment edged up to 5.4%, a fresh record high, but in line with forecasts. Household spending came in better-than-expected, rising 3.1% m/m sa, the first rise since March. Some contacts dismissed the spending data as due to one-off factors. The Nikkei eeked out modest gains despite the weak data and today's MSCI reweighting.

The BOJ injected an additional Y5 trillion into the money market, increasing current account balances to Y14 trillion -- the highest level since Mar '00. The move was in response to withdrawals from money management funds. While five money funds' values fell below par as a result of their holdings of yen denominated paper issued by Enron, redemptions reportedly spread to other money funds not holding Enron paper. The injection of liqudity was readily absorbed by Japanese financial instituions and had no immediate impact on the yen. JGB yields fell 1 to 3 bps across the coupon curve with the intermediate

portion of the curve performing well despite fresh issuance today in the 5-year sector.

Emerging Asia: Fitch cut the outlook on Indonesia's I-term foreign currency rating to stable from positive, citing recent indications Indonesia might grant comparable treatment to its 06' Yankee bond in upcoming Paris Club negotiations. Moody's upgraded South Korea's outlook to positive from stable, signalling an upgrade could be in the cards if Korea makes further progress on corporate and financial sector reforms. The Korean Kospi extended its gains while better-than-expected Q3 GDP data out of Hong Kong bolstered shares on the Hang Seng.

Europe: Euro-area fixed income is rallying with the short-end outperforming on the hope better-than-expected consumer and producer price data could increase the near-term prospect of an ECB rate cut and playing catch up to Treasuries' afternoon gains yesterday. The ECB meets next Thursday. European bourses are higher, bolstered by gains in telecom shares.

U.S. Markets Treasury prices are little changed this morning, retracing earlier weakness in longer-dated issues during the Asian session. Dealers report two-way flows but trading remains choppy ahead of month-end and, for some firms, year-end closings today. U.S. equity index futures are little changed. Some contacts note today's WSJ article that Merrill Lynch is in merger talks with several suitors. Attention now turns to Q3 GDP and Chicago PMI data as well as comments from Fed officials (including Chairman Greenspan) due to speak later today.

Today's Events:	Actual	Consensus Expectation
Previous Period		•
Japan unemployment rate, Oct.	5.4%	
5.4% 5.3	3%	
Tokyo consumer prices, Nov, s	a -0.2% m/m	-0.1%
m/m -0.4% m/n	1	
French unemployment, Oct.	8.9%	
9.0% 9.1	1%	
Eurozone CPI, Nov.	2.1% y/y	2.2%
y/y 2.4% y/y		
U.S. Q3 GDP 1st revision	8:30 a.m.	-
1.0% -0.4		
Canadian Q3 GDP 1st revision	8:30 a.m.	-
0.6% -0.4	1%	
Chicago PMI, Nov	10:00 a.m.	
45.5 46.	2	

Wiedman, Mark

From: Sent:

Carleton, Norman

To:

Thursday, December 20, 2001 11:30 AM

Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne;

Whaley, Jean; Wiedman, Mark

Subject:

Economist: Auditors -- Who Fiddled What?

Auditors

Who fiddled what?

Oec 20th 2005 From The Economist print edition.

"Errors of judgment" are piling up at Andersen

Get article background

AUDITING is a dull business. But it is also dangerous, as Andersen, the world's fifth-largest firm of accountants, is finding out. Andersen audited Enron for all 16 years since the company's formation. On top of pure audit, it also sold internal-audit and consulting services. But despite this privileged insight, Andersen did not spot the fact that Enron was publishing incorrect financial statements. For failing to do its job, Andersen now faces the wrath and legal claims of thousands of staff, shareholders and creditors who will lose billions from Enron's collapse.

In November, Enron announced that it would restate all its annual financial statements from 1997 to 2000, resulting in a cumulative profit reduction of \$591m and an increase in debt of \$628m. The reason, it said, was that it should have added in three off-balance-sheet entities, vehicles used by some companies to acquire more capital without adding debt to their balance sheets.

How could Enron's auditor have missed all of this at the time? Joseph Berardino, Andersen's chief executive, admitted to Congress last week that his firm made an "error of judgment" over one of the vehicles. But most of Enron's restatement, he said, came from a bigger "special purpose" vehicle called Chewco: Enron's management did not provide the information about Chewco that would have led Andersen to Insist on its consolidation. He said Andersen warned Enron's audit committee about "possible illegal acts".

Enron is fighting back. It says that it not only discovered and reported the relevant information on Chewco to Andersen, but that Andersen was involved in "real-time" audit procedures on all of its main structuredfinance vehicles. If Andersen is found actually to have advised on the design of Enron's off-balance-sheet vehicles, as the company implies, it will find it hard to plead ignorance over their construction.

The Securities and Exchange Commission (SEC) is investigating Andersen's audit work on Enron, and lawsuits have been filed against the firm; doubtless more light will be shed on what happened. But already, some observers are questioning whether Andersen will survive in its present form. This year, the SEC imposed a \$7m fine on Andersen for signing the accounts of Waste Management, another Texas firm, knowing that the accounting methods it had used were designed to mislead investors. In the spring, Andersen paid \$110m to settle an accounting-fraud lawsuit over auditing work it did for Sunbeam, a Florida consumer-products company that filed for bankruptcy. Given all these cases, it is even possible that the SEC may bar Andersen from taking new audit clients for a time. If plaintiffs are successful, the firm may have to pay out many more millions in compensation.

Mr Berardino's defence, beyond accusing Enron of withholding information, is that the accountancy

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profession as a whole is at fault, and a few others as well, such as credit-rating agencies and investment bankers. The heads of the other "big-five" accountancy firms joined in: the standard setters are too slow, they said, and failed to produce adequate rules on off-balance-sheet vehicles: the financial reporting model is outdated and there should be firmer regulation and discipline, and improvements to audit effectiveness.

There is truth in this, but it remains to be seen how much change the American accounting profession will accept. At the moment, auditors are supposedly kept honest by a longstanding system of self-regulation, in which big firms conduct "peer reviews" of each others' audit practices. The Public Oversight Board, which monitors the process, lacks independence from the accounting profession, which funds and staffs it, and has little ability to punish miscreant auditors. Lynn Turner, a former chief accountant of the SEC who is now at Colorado State University, says that America would do well to adopt something like Britain's new, independent system for upholding audit standards.

The large part played by special purpose vehicles in Enron's collapse has spurred the Financial Accounting Standards Board (FASB) to revisit its rules on how to account for them. Up to now, the FASB has been chary of using the notion of control, rather than ownership, to decide on consolidation, because of its subjectiveness. That, some say, has led to a too-lenient standard. Andersen did not follow the existing rules anyway, says the FASB, which in the case of Enron's off-balance-sheet entities required consolidation.

Will auditors blow the whistle on future Enrons? The big firms argue that every recession throws up a number of corporate failures and tales of auditing mistakes: they simply pay up and wait for the next. The sheer scale of Enron's demise, though, is likely to demand some meaningful change. Last year, the oversight board's panel on audit effectiveness made some simple suggestions. It said that auditors should use forensic methods. Audit thoroughness, as well as fee generation, should feature in deciding pay and promotion. It should be the audit committee, not management, that decides whether an auditor should be allowed to carry out non-audit work over a certain value.

The worst outcome of the Enron affair, for accounting firms, would be that regulators ban them from selling consulting services to those they audit. Big firms worry that if they were left with audit alone, which for most people is a tedious task, their ability to recruit talented staff would evaporate and they might as well hand the job to a government agency. Better audits would be the best way to assure regulators that such a ban is unnecessary.

Wiedman, Mark

From:

Carleton, Norman

Sent: To:

Tuesday, December 18, 2001 5:22 PM

Cetina, Jill; Bair, Sheila, Berardi, Steve, Bitsberger, Timothy; Eichner, Matthew, Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman,

Subject:

DJ: Enron's Fall May Spur New Look At Auditor Independence

December 18, 2001

Enron's Fall May Spur New Look At Auditor Independence

By Judith Burns

Of DOW JONES NEWSWIRES

WASHINGTON -- Enron Corp.'s stunning collapse may prompt Congress and regulators to revisit proposals to bar Big Five accounting firms from providing consulting work for audit clients, legal experts testified Tuesday.

Arthur Levitt, the former Securities and Exchange Commission chairman, failed in a push last year to ban auditors from acting as consultants for companies they audit. Levitt said he worried potential profits from consulting could create a conflict of interest that undermines auditors' independence. He also proposed restricting internal audit work for audit clients, a move he said might result in Big Five firms auditing their own work.

Faced with opposition from three Big Five firms, the SEC eventually adopted new rules that don't ban auditors from acting as consultants or providing internal audit work.

"The time has come to recognize that Chairman Levitt may have been right," John Coffee, a Columbia Law School professor testified Tuesday at a Senate Commerce Committee hearing on Enron's collapse.

Arthur Andersen LLP, which opposed Levitt's auditor independence proposal, defended its work for Enron. Most of the \$52 million in annual fees from Enron was for audit work, including internal auditing, not consulting, Andersen managing director C.E. Andrews testified.

"We did not audit our own work," Andrews told the Senate panel.

While some lawmakers said they didn't think Andersen would risk its reputation and \$10 billion annual business to protect Enron, Coffee said the Houston energy company was "a very big client" for Andersen and he urged Congress to revisit the issue of auditor independence.

SEC Chairman Harvey Pitt opposed Levitt's auditor-independence rules when he represented Big Five accounting firms in his private law practice, but Coffee thinks he may have a different view now, telling reporters Pitt is "very politically astute," and will respond if Congress pressures him on auditor independence.

Coffee expects the Enron debacle also may result in stricter self-regulation for accountants and auditors, similar to what the National Association of Securities Dealers provides in overseeing U.S. broker-dealers. The American Institute of Certified Public Accountants currently leaves discipline up to states, which Coffee said has resulted in inadequate oversight and discipline.

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Lawmakers promised to return to accounting and auditing issues in 2002.

"It seems to me there is a carload of conflicts here," said Sen. Byron Dorgan, D-N.D., who is chairman of the Senate Commerce subcommittee on consumer affairs.

-By Judith Burns, Dow Jones Newswires, 202-862-6692; judith.burns@dowjones.com

Pedri, Melissa

From:

DeMarco, Edward

Sent:

Monday, December 03, 2001 12:40 PM

To:

Ugoletti, Mario; Hughes, Gerry; McCall, Neal; Pedri, Melissa; McInerney, Roberta; Ellett,

Martha

Subject:

FW: WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

FYI

-----Original Message-----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 12:31 PM

To:

DeMarco, Edward; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared;

Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

December 3, 2001

Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

By CHRISTOPHER OSTER

Staff Reporter of THE WALL STREET JOURNAL

Enron Corp.'s collapse is expected to cost insurance companies more than \$3.5 billion and most likely will further increase skyrocketing insurance rates.

About \$2 billion of the losses is expected to be shouldered by property-casualty underwriters, who are expected to pay \$40 billion to \$70 billion in claims from the Sept. 11 terrorist strikes. Those claims already have touched off a run-up in premium rates. The losses would make next year's price increases among the biggest in recent history for insurers, if not the biggest, said Alice Schroeder, a property-casualty insurance analyst at Morgan Stanley. Such losses work to siphon off capital from the insurance market, reducing price competition.

The damage to individual property-casualty insurers is "virtually impossible" to assess at this point, but Ms. Schroeder said a "material impact" on the sector is likely. The losses are expected to result from claims against directors-and-officers liability policies, surety bonds and financial-guarantee coverage. Directors-and-officers liability policies protect a company from lawsuits stemming from the actions of its executives and surety bonds are bonds that insure the completion of a transaction or a project.

Life insurers, meanwhile, are expected to report that the values of their investment portfolios have dropped by more than \$1.5 billion, related to holdings of Enron debt, which has plunged in value in recent weeks along with the company's stock price. Investors' confidence in the company has sunk amid earnings restatements and revelations about related-party transactions.

Nontraditional financial-guarantee insurance and surety bonds could prove the source of some of the biggest losses, analysts said. Enron obtained coverage for such purposes as enhancing the value of Enron's guarantee of certain debt of Enron-related projects as well as the company's guarantees on the execution of certain derivative contracts. Analysts said the payments on the policies would be triggered immediately upon a default event — for example, a missed payment or bankruptcy filing by Enron. "We understand that some contracts may have already been triggered," Ms. Schroeder said.

On Friday, Chubb Corp., Warren, N.J., said it was reviewing its surety bonds related to Enron and estimated its maximum exposure at \$143 million. The property-casualty underwriter said it is unable to estimate the actual amount, if any, that it may be required to pay and that thus far it hadn't received any claims under the surety bonds.

Ms. Schroeder estimated that a maximum of \$300 million in directors-and-officers liability coverage likely is involved, divided among several insurance companies. Already, Enron faces multiple shareholder-driven lawsuits because of the steep drop in the company's stock price.

Jason Zucker, a life-insurance analyst at Banc of America Securities, said the Enron exposures would "pressure bond portfolios in this recessionary environment."

Among those with big holdings is John Hancock Financial Services Inc., according to insurance analyst Colin Devine of Salomon Smith Barney, who expects the company to incur a loss of \$120 million this quarter on the bonds. A John Hancock spokeswoman declined to comment on the estimate.

Mr. Devine said Principal Financial Group Inc. and Lincoln National Corp. also have substantial Enron bond holdings. In a news release, Principal said the company is reviewing its approximately \$171 million "exposure to Enron" and expects to take a write-down this quarter of a size not yet estimated. Principal said it also is reviewing an additional exposure of \$50 million from investments in Enron-related entities. A spokeswoman for Lincoln National said the company had \$25 million of Enron Corp. debt and \$70 million from its subsidiaries. "We may take a charge of some of the exposure related to the parent, but we won't know until we get closer to the end of the quarter."

Write to Christopher Oster at chris.oster@wsj.com

DeMarco, Edward

From:

DeMarco, Edward

Sent:

Monday, December 03, 2001 12:40 PM

To:

Ugoletti, Mario; Hughes, Gerry; McCall, Neal; Pedri, Melissa; McInerney, Roberta; Ellett,

Subject:

FW: WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

FYL

----Original Message----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 12:31 PM

To:

DeMarco, Edward; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

December 3, 2001

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Write to Christopher Oster at chris.oster@wsj.com

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T	-		174		-	

Recipient
Ugoletti, Mario
Hughes, Gerry
McCall, Neal
Pedri, Melissa
McInemey, Roberta
Ellett, Martha

Read

Read: 12/03/2001 2:07 PM Read: 12/03/2001 12:40 PM Read: 12/03/2001 12:42 PM Read: 12/03/2001 12:50 PM Read: 12/03/2001 1:22 PM

Read: 12/03/2001 1:49 PM

DeMarco, Edward

From:

Hart, Susan

Sent: To: Tuesday, June 12, 2001 4:54 PM Ellis, Dina; DeMarco, Edward Early drofts of Saving Boul speech

Moran Urges Support For Opt-Out Privacy Plan, Commission

by Bara Vaida <mailto:bvaida@nationaljournal.com>

The privacy position of the new chairmen of the Senate Commerce and Judiciary committees poses a concern to the high-tech community, Rep. James Moran, D-Va., co-chairman of the New Democrat Coalition.

shttp://www.ndol.org/ndol_ka.cfin?kaid=103, told high-tech lobbyists Tuesday.

"As elated as I am at the change in the leadership of the Senate, the chairs of the Judiciary and Commerce committees have sponsored opt-in bills ... that will mean a difficult situation on the [Senate] playing field," Moran told the lobbyists who had gathered to hear a preview of the New Democrat Coalition's "e-genda 2001," scheduled for release Wednesday afternoon.

The opt-in approach to privacy would put the burden on online businesses to obtain consent from consumers before using their personal information for marketing purposes or selling it to third parties. Moran instead urged the lobbyists — from Microsoft, Cisco Systems, AT&T, Hewlett-Packard, VeriSign, Enron and other high-tech companies — to consider supporting the opt-out approach that would put the burden on consumers.

Sens. John McCain, R-Ariz. and John Kerry, D-Mass., introduced the leading opt-out privacy bill, S. 2928

http://rs9.loc.gov/cgi-bin/bdquery/z?d106:SN02928:@@@L&summ2=m&>, in the 106th Congress. Moran also urged the lobbyists to support a bill, H.R. 583 , that he co-sponsored. It would create a 17-member commission to study existing privacy laws, conduct field hearings and make legislative recommendations to Congress within 18 months. Moran said the House Government Reform Committee could consider his bill soon — before its leading Republican co-sponsor, Asa Hutchinson of Arkansas, leaves the House to head the Drug Enforcement Administration for President Bush.

Sources close to the Senate Commerce Committee have said new Chairman Ernest (Fritz) Hollings, D-S.C., plans to hold several hearings on privacy policy in July. The hearings likely will focus on various aspects of the opt-in privacy bill, S. 2606, that Hollings sponsored in the 106th Congress, but Hollings does not plan to reintroduce his bill until after the hearings, industry sources said.

On other high-tech related issues, Californian Calvin Dooley, co-chairman of the House New Democrat Coalition, told the lobbyists that new legislation to renew presidential trade-negotiating expected to be introduced in the House this week is "dead on arrival" with Democrats if it does not include language related to labor and environmental standards.

Dooley has been trying to craft a compromise bill that would include enforcement of labor and environmental provisions. Many Republicans want to leave those issues out of trade deals.

New Democrats, however, are optimistic about House passage of legislation to renew normal trade relations with China. Although Congress voted last year to approve permanent normal trade relations with China, the country has yet to join the World Trade Organization, hence forcing another annual vote on the issue. On other issues, the New Democrats are developing a comprehensive energy policy because they said the West Coast's energy problems are threatening the ability for future high-tech growth in the region.

Hughes, Gerry

From: Carleton, Norman

Sent: Friday, December 21, 2001 10:37 AM

To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo,

Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Torn; McInerney, Roberta; Salladin, Anne; Smith,

Amy; Sutton, Gary; Tishuk, Brian

Subject: DJ: US Congress Fails To Pass Contract Netting Bill

December 21, 2001

US Congress Fails To Pass Contract Netting Bill

Dow Jones Newswires

(This article was originally published Thursday.)

WASHINGTON -- Despite an eleventh-hour appeal from Federal Reserve Chairman Alan Greenspan and pressure from Wall Street, lawmakers again failed to enact legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency.

The once-obscure financial issue gained new prominence and urgency on Capitol Hill as lawmakers struggled to understand the high-finance finagling that lead to the recent Chapter 11 bankruptcy filing of energy giant Enron Corp. (ENE).

The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by **netting** all the losses and gains of individual contracts into one deal.

"Enron underscores the importance of it," said Peggy Peterson, spokeswoman for the House Financial Services Committee. "The other factor is the recessionary economic climate - the **netting** provisions would lower market risk."

Greenspan recently met with committee Chairman Michael Oxley, R-Ohio, and House Judiciary Chairman James Sensenbrenner, R-Wis., after Oxley held a bruising hearing on financial improprieties leading to Enron's demise.

Pressure to pass the measure was already building since the Sept. 11 terrorist attacks shut down U.S. financial markets and destroyed the Manhattan offices of many Wall Street brokerage houses.

"Congress should not fail to enact **netting** legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk."

But Sensenbrenner rebuffed requests from Greenspan, Oxley and House leaders to pass the legislation apart from the larger bankruptcy bill it was attached.

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Complicated, off-balance sheet transactions were Enron's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income by \$569 million over four years.

Creditors are now lining up to collect on the approximately \$40 billion in debt owed by Enron.

Of that, roughly \$22 billion is on the balance sheet in the form of bank debt, commodity-transaction financing, bonds and other public securities. The remainder is made up of roughly \$7 billion in bonds and bank debt linked to other assets in special partnerships, as well as an additional \$10.7 billion in "project finance," a term that typically refers to money lent to build power plants or oil refineries.

-By Dawn Kopecki, Dow Jones Newswires; 202-862-6637; Dawn.Kopecki@dowjones.com

Hughes, Gerry

From: Carleton, Norman

Sent: Friday, December 14, 2001 10:13 AM

To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton,

Gary; Tishuk, Brian

Subject: Enron -- ABI Website Dec. 12

Enron Update

U.S. Congress to Hold First Hearing on Enron Bankruptcy Today

The first congressional hearing into the collapse of Enron Corp. gets underway today with testimony from auditors of the former energy trading giant but not the top executive of the embattled Houston-based company, Reuters reported. Enron chief executive Kenneth Lay declined an invitation to testify before the House Financial Services Committee. "We're disappointed," panel chairman and Rep. Michael Oxley (R-Ohio) said. "But this is [just] the first in a series of hearings and investigations that the committee will be conducting."

Arthur Andersen CEO Joseph Berardino will face questions about when Enron's auditors first realized there were problems with Enron's accounts. SEC Chairman Harvey Pitt, who has promised a thorough but quick probe of Enron, also declined an invitation to appear at today's hearing. Instead, SEC Chief Accountant Robert Herdman will testify. Also set to testify at the hearing is Richard Trumka, secretary-treasurer of the AFL-CIO. Oxley has said any further Financial Services committee hearings on Enron after Wednesday will not occur until 2002.

Congress Demands Records, Briefing From Enron

A congressional committee yesterday demanded that Enron Corp. hand over financial records and meet with committee staff within 10 days, according to Reuters. The House Energy and Commerce Committee called on Enron to turn over documents relevant to the committee's investigation into the company's collapse, said committee Chairman Rep. Billy Tauzin (R-La.) and Rep. James Greenwood (R-Pa). In letters sent this week to Enron Chairman Kenneth Lay, and Andrew Fastow, the company's former chief financial officer, Tauzin and Greenwood also requested staff interviews with both current and former senior Enron employees as well as members of Enron's audit and compliance committee by Dec. 21.

In their letters, Tauzin and Greenwood requested that a mountain of documents be turned over to the committee by Dec. 17. The request listed 43 separate aspects of the Enron case in which the committee has interest, including: earnings restatement decisions, financial ties among Enron officers and outside partnerships they were involved with, minutes from board and audit committee meetings from 1997 to present and correspondence between Enron auditor Arthur Andersen and the company.

J.P. Morgan Sues Enron for \$2.1 Billion

J.P. Morgan Chase & Co., one of Enron Corp.'s biggest creditors, yesterday sued the troubled energy trader for more than \$2.1 billion, Reuters reported. The New York-based bank claimed in a suit filed in the U.S. Bankruptcy Court in New York on behalf of itself and related parties that it has rights to Enron assets such as accounts receivable, commercial paper, cash, and other property, which allegedly are not protected in Enron's bankruptcy proceedings.

Enron holds the assets in dispute only as a servicer for the alleged owners, under two accounts

receivables deals, the suit claims. The assets are not property of Enron because they were sold before Enron's Dec. 2 bankruptcy filing. J.P. Morgan acted as an agent in two credit facilities whose proceeds helped fund two accounts receivables transactions between Enron and Sequoia Financial Assets, a special purpose, bankruptcy-related entity, the suit said. Sequoia allegedly bought the receivables from Enron and reinvested the money collected on the bills in short-term paper issued by Enron and its Enron North America unit.

Dynegy Files Motion to Dismiss Or Transfer Enron Case

Dynegy Inc. filed a motion on Monday asking the federal bankruptcy court in the Southern District of New York to dismiss Enron's \$10 billion breach-of-contract lawsuit against Dynegy, or, to transfer the case to Houston, Dow Jones reported. Enron's claims against its former merger partner "in no way relate to federal bankruptcy law or the administration of these chapter 11 cases," according to the filing.

Dynegy asked the New York bankruptcy court to abstain from hearing Enron's suit against Dynegy, which allegedly involves state rather than federal breach-of-contract claims. Alternatively, the case should take place in Texas - where Enron and most of its units are based - instead of New York, where the "only link to the dispute is ... hung upon the gossamer thread of the location of (Enron's) subsidiary Enron Metals and Commodity Inc."

Hughes, Gerry

From: Carleton, Norman

Sent: Friday, December 14, 2001 10:10 AM

To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton,

Gary; Tishuk, Brian

Subject: DEC 13 ABI Website -- More on Enron and Bankruptcy

Enron Update

House Panel Vows Comprehensive Enron Investigation

House Financial Services Committee members yesterday plunged into what they pledged would be a comprehensive investigation into the collapse of Enron Corp., a task made more difficult by Enron Corp. CEO Kenneth Lay's failure to appear before the panel as a witness, *CongressDaily* reported. Lay sent the committee a letter on Tuesday, explaining that he would be unable to attend the hearing because he was scheduled to participate in bankruptcy proceedings. Financial Services Capital Markets Subcommittee Chairman Richard Baker (R-La.) said the committee would continue its investigation in "late January, possibly early February." And, he added, "Our task is to establish the facts, change the rules where needed and assist the SEC in pursuit of those who have violated the law."

Several lawmakers on both sides of the aisle also used Enron's demise as an opportunity to renew their calls for the passage of a financial "netting" bill, provisions of which are included in the bankruptcy reform bill. Financial Services Committee Chairman Michael Oxley (R-Ohio) and ranking member John LaFalce (D-N.Y.) agreed that Enron's collapse underscores the urgent need for passage of provisions designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. Netting refers to the practice where the amounts due between financial institutions in the event of a default are quickly calculated as one net amount, helping reduce risk. The netting language is one of the few consensus items included in comprehensive bankruptcy reform legislation that "is destined to go down to defeat," LaFalce asserted. "[Netting] is not a new issue," he fumed. "We need to extract [those] provisions and simply pass them independently."

Auditor Hints of 'Illegal Acts' at Enron

Enron Corp.'s outside auditor said yesterday "illegal acts" may have been committed at the energy-trading company before it sought bankruptcy protection last week, *The Washington Post* reported. The chief executive of Arthur Andersen, the accounting firm that approved years of financial statements that overstated Enron's profits and understated its debts, also said Andersen made "an error in judgment" that accounted for \$103 million in overstated profits.

While Joseph F. Berardino testified yesterday on Capitol Hill, giving Andersen's first substantive explanation of why it certified Enron's reports, top Enron officers detailed a reorganization strategy for creditors at a meeting in New York. And former Enron chief financial officer Andrew Fastow, after failing to honor a Securities and Exchange Commission subpoena, surfaced at a news conference to dispel speculation that he had fled the country. In addition to Congress and the SEC, the Justice and Labor departments are investigating Enron's collapse. More congressional hearings are expected next month. To read the entire story, point your browser to http://www.washingtonpost.com/wp-dyn/articles/A34904-2001Dec12.html.

Enron Seeks \$6 Billion From Asset Sales

Bankrupt Enron Corp. yesterday announced that it may sell its key energy trading unit and plans to raise up to \$6 billion by selling other assets, Reuters reported. Chief Financial Officer Jeff McMahon said that Enron plans to sell its troubled Azurix Corp. water unit, businesses in emerging markets and wind energy assets. It plans to retain its exploration and production unit, wholesale and retail services and regulated businesses. McMahon said Enron has about \$13 billion in unsecured bank debt and an additional \$2 billion in secured bank debt. Enron plans to raise between \$4 billion to \$6 billion with the noncore asset sale.

Dynegy Suit to Gain Enron Pipeline Moved to Federal Court

Dynegy Inc.'s lawsuit to secure ownership of an Enron Corp. pipeline company has been transferred to the Federal District Court in Houston, Dow Jones reported. The state District Court of Harris County, Texas, where Dynegy originally filed the suit, transferred the case on Tuesday. Enron asked that the suit be moved to federal court to determine whether it should be heard by the federal bankruptcy court in New York, as Enron's lawyers have argued, or in state court, as Dynegy prefers. Dynegy plans to seek to move the case back to state court.

Dynegy filed suit against two Enron subsidiaries on Dec. 3 in the state court seeking control of the Enron Northern Natural Gas Co. Dynegy based its claim to Northern Natural on an option it secured from Enron in exchange for a \$1.5 billion cash infusion. The option allowed Dynegy to acquire complete control of Northern Natural in the event Dynegy's offer to acquire Enron fell through. Dynegy terminated its acquisition offer last month and told Enron it was exercising its option to buy Northern Natural. Enron is contesting Dynegy's claim and has sued its one-time suitor for \$10 billion for wrongfully terminating its acquisition offer.

Enron Objection Deadline Extended to Dec. 18

Enron announced that it has moved the date of its next bankruptcy hearing, originally scheduled for tomorrow, to Dec. 20. Enron representatives weren't immediately available to provide the reason for the rescheduling. Enron said the hearing is designed to give adequate assurance to utility companies providing services to Enron and its debtor subsidiaries. In connection with the rescheduled hearing, Enron has extended the objection deadline to Dec. 18.

Hughes, Gerry

From:

Carleton, Norman

Sent:

Friday, December 14, 2001 10:02 AM

To:

Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Eichner, Matthew; Hammer, Viva; Lori Sanatamorena (E-mail); Novey, Michael; Pietrangeli, Fred; Whaley, Jean;

Wiedman, Mark

Subject:

Enron and Bankruptcy Bill -- ABI Website

ENRON UPDATE

Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle Federal Reserve Chairman Alan Greenspan met yesterday with key House lawmakers to discuss this year's prospects for passing legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency, Dow Jones reported. The once-obscure financial issue has gained new prominence and urgency on Capitol Hill as federal investigators sift through the mess left behind by Enron's chapter 11 bankruptcy filing. The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by netting all the losses and gains of individual contracts into one deal.

House Financial Services Chairman Michael Oxley (R-Ohio) invited Greenspan to meet with House Judiciary Chairman James Sensenbrenner (R-Wis.) after Oxley held a bruising hearing on Wednesday on financial improprieties leading to Enron's demise. Complicated, off-balance sheet transactions were the company's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income over four years by \$569 million. Creditors are now lining up to collect on about \$40 billion in debt owed by Enron.

"Congress should not fail to enact netting legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk." Lawmakers are now questioning whether the legislation, which is also attached to a broader bankruptcy bill in both chambers, could be applied to Enron's bankruptcy case if the bill passes this year. Federal securities officials said it was unclear whether they could apply new contract netting laws retroactively. Oxley hopes to get the bill passed by next week, before Congress finishes its work for 2001.

House Probe Seeks Andersen's Records On Enron Audits

The House Energy and Commerce Committee yesterday asked Arthur Andersen to provide records relating to its audits of Enron Corp., Dow Jones reported. At the same time, the committee sent a letter to former Enron Chief Executive Jeffrey Skilling, requesting an interview with committee investigators within the next two weeks. The committee also formally sought interviews with David Duncan, Andersen's partner in charge of the company's Enron account, and Andersen employees involved in the company's audits. The requests came after Joseph Berardino, Andersen's chief executive, told the House Financial Services Committee on Wednesday that the auditing and consulting firm didn't receive critical information from its client concerning the special-purpose entities that brought about Enron's financial downfall.

Enron Seeks Supplier to Take Over California University System Powers Contract
Enron Corp is looking for another electricity supplier to complete its contract with California's
two public university systems, a spokeswoman for California State University said yesterday,
reported Dow Jones. Enron Energy Services Inc.'s current contract with California State and
the University of California Systems expires on March 31, 2004, said spokeswoman Clara
Potes-Fellow. The Enron subsidiary filed for chapter 11 bankruptcy protection Dec. 2.

Enron Contract Hearing Moved To Dec. 18

A bankruptcy court hearing regarding embattled Enron Corp.'s motion to negotiate, end or sell certain contracts has been postponed to next Tuesday, Dec. 18, Dow Jones reported. The meeting was originally scheduled for today. Earlier this week, Enron filed a motion with the court asking to be allowed to terminate with other parties certain contracts with safe-harbor provisions. The company doesn't want to ask for court approval every time it seeks to end an agreement.

In its filing, Enron had asked for authority to end some of these safe-harbor contracts and negotiate payments for each termination. Creditors, including Cinergy Corp.'s Cinergy Services Inc. and Wiser Oil Co., have filed objections. The motions and objections will be addressed at Tuesday's bankruptcy court hearing.

Hughes, Gerry

From:

DeMarco, Edward

Sent:

Monday, December 03, 2001 12:40 PM

To:

Ugoletti, Mario; Hughes, Gerry; McCall, Neal; Pedri, Melissa; McInerney, Roberta; Ellett,

Martha

Subject:

FW: WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

FYI

-----Original Message-----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 12:31 PM

To:

DeMarco, Edward; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

December 3, 2001

Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

By CHRISTOPHER OSTER

Staff Reporter of THE WALL STREET JOURNAL

Enron Corp.'s collapse is expected to cost insurance companies more than \$3.5 billion and most likely will further increase skyrocketing insurance rates.

About \$2 billion of the losses is expected to be shouldered by property-casualty underwriters, who are expected to pay \$40 billion to \$70 billion in claims from the Sept. 11 terrorist strikes. Those claims already have touched off a run-up in premium rates. The losses would make next year's price increases among the biggest in recent history for insurers, if not the biggest, said Alice Schroeder, a property-casualty insurance analyst at Morgan Stanley. Such losses work to siphon off capital from the insurance market, reducing price competition.

The damage to individual property-casualty insurers is "virtually impossible" to assess at this point, but Ms. Schroeder said a "material impact" on the sector is likely. The losses are expected to result from claims against directors-and-officers liability policies, surety bonds and financial-guarantee coverage. Directors-and-officers liability policies protect a company from lawsuits stemming from the actions of its executives and surety bonds are bonds that insure the completion of a transaction or a project.

Life insurers, meanwhile, are expected to report that the values of their investment portfolios have dropped by more than \$1.5 billion, related to holdings of Enron debt, which has plunged in value in recent weeks along with the company's stock price. Investors' confidence in the company has sunk amid earnings restatements and revelations about related-party transactions.

Nontraditional financial-guarantee insurance and surety bonds could prove the source of some of the biggest losses, analysts said. Enron obtained coverage for such purposes as enhancing the value of Enron's guarantee of certain debt of Enron-related projects as well as the company's guarantees on the execution of certain derivative contracts. Analysts said the payments on the policies would be triggered immediately upon a default event -- for example, a missed payment or bankruptcy filing by Enron. "We understand that some contracts may have already been triggered," Ms. Schroeder said.

On Friday, Chubb Corp., Warren, N.J., said it was reviewing its surety bonds related to Enron and estimated its maximum exposure at \$143 million. The property-casualty underwriter said it is unable to estimate the actual amount, if any, that it may be required to pay and that thus far it hadn't received any claims under the surety bonds.

Ms. Schroeder estimated that a maximum of \$300 million in directors-and-officers liability coverage likely is involved, divided among several insurance companies. Already, Enron faces multiple shareholder-driven lawsuits because of the steep drop in the company's stock price.

Jason Zucker, a life-insurance analyst at Banc of America Securities, said the Enron exposures would "pressure bond portfolios in this recessionary environment."

Among those with big holdings is John Hancock Financial Services Inc., according to insurance analyst Colin Devine of Salomon Smith Barney, who expects the company to incur a loss of \$120 million this quarter on the bonds. A John Hancock spokeswoman declined to comment on the estimate.

Mr. Devine said Principal Financial Group Inc. and Lincoln National Corp. also have substantial Enron bond holdings. In a news release, Principal said the company is reviewing its approximately \$171 million "exposure to Enron" and expects to take a write-down this quarter of a size not yet estimated. Principal said it also is reviewing an additional exposure of \$50 million from investments in Enron-related entities. A spokeswoman for Lincoln National said the company had \$25 million of Enron Corp. debt and \$70 million from its subsidiaries. "We may take a charge of some of the exposure related to the parent, but we won't know until we get closer to the end of the quarter."

Write to Christopher Oster at com com <a href="mailto:chris.oster@wsj.com com com chris.oster@wsj.com <a href="mailto:chris.oster

Hughes, Gerry

From: Carleton, Norman

Sent: Thursday, November 29, 2001 6:19 PM

To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Ered; Boseboro, Brian; Schultheire, Heidlitmen; Sherey, James Whales

Michael; Pietrangell, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Torn; McInerney, Roberta; Salladin, Anne;

Smith, Amy; Sutton, Gary; Tishuk, Brian

Subject: Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By Jason Booth, Henny Sender and Richard B. Schmitt

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron** Corp. sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If **Enron** files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by **Enron**, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. **Enron** has about 800 trading partners or creditors.

The scale of the **Enron** collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the **Enron** umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered **Enron** stock, which was halted for a time on Wednesday, and knocked lower some of its financial backers' shares. **Enron** shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, **Enron** was trading down 33%, or 20 cents, to 41 cents. On Wednesday, **Enron** bonds also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over

1

how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where **Enron** Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of **Enron**. "The recent developments with **Enron** serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, Enron's presence in South Korea appears to be nearing an end. According to officials at SK Corp., **Enron** plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that **Enron** had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepco is looking to sell assets as past of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to **Enron** debt, which amounted to about 40 billion yen (\$324.9 million). **Enron** news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of **Enron** were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to **Enron** entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by **Enron** pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

-- Rebecca Smith and Robin Sidel contributed to this article.

Write to Jason Booth at jason.booth@awsj.com, Henny Sender at henny.sender@wsj.com, and Richard B. Schmitt at

rick.schmitt@wsj.com <mailto:rick.schmitt@wsj.com>.

Hughes, Gerry

From: Carleton, Norman

Sent: Thursday, November 29, 2001 6:13 PM

To: Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern,

Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Arny; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Cetina, Jill; Eichner, Matthew; Hammer, Viva; Lori Sanatamorena (E-mail); Novey, Michael; Pietrangeli, Fred;

Sharer, James; Whaley, Jean; Wiedman, Mark

Subject: DJ: IN THE MONEY-2: Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2: Collateral Key To Counterparties Recovery

Dow Jones Newswires

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue **Enron** all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. **Enron** shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint. Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although Enron and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by **Enron** on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of **Enron** took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

Hughes, Gerry

From: Sent:

Carleton, Norman

To:

Thursday, November 29, 2001 6:09 PM

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose: Gross, Jared: Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne;

Smith, Arny; Sutton, Gary; Tishuk, Brian

Subject:

A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses

bankruptcy netting issues)

November 29, 2001

IN THE MONEY: Enron's Derivatives Could Test Courts

By CAROL S. REMOND and PHYLLIS PLITCH

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with Enron in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in Enron's expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with Enron, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by Enron. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that Enron will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of Enron's recent losses, the treatment of derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in Enron's assets. That's an issue that will permeate the proceedings with all of Enron's stunned creditors. On top of its derivative exposure, Enron is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, Enron was a party to billions of dollars of derivative contracts

designed to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, Enron was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an Enron bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for Enron and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although Enron has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue Enron all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. Enron shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, Enron is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although Enron and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by Enron on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of Enron took a nose dive after Dynegy rescinded its merger offer, with trading levels

indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to Enron.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com (Phyllis Plitch contributed to this column.)

From:

Carleton, Norman

Sent:

Thursday, November 29, 2001 6:19 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangell, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta;

Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian

Subject:

Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By Jason Booth, Henny Sender and Richard B. Schmitt

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron** Corp. sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If **Enron** files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by **Enron**, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. **Enron** has about 800 trading partners or creditors.

The scale of the **Enron** collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the **Enron** umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered **Enron** stock, which was halted for a time on Wednesday, and knocked lower some of its financial backers' shares. **Enron** shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, **Enron** was trading down 33%, or 20 cents, to 41 cents. On Wednesday, **Enron** bonds

also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where **Enron** Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of **Enron**. "The recent developments with **Enron** serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, Enron's presence in South Korea appears to be nearing an end. According to officials at SK Corp., **Enron** plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that **Enron** had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepco is looking to sell assets as past of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to Enron debt, which amounted to about 40 billion yen (\$324.9 million). Enron news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of **Enron** were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to **Enron** entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by **Enron** pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

-- Rebecca Smith and Robin Sidel contributed to this article.

Write to Jason Booth at jason.booth@awsj.com, Henny Sender at henny.sender@wsj.com, and Richard B. Schmitt at rick.schmitt@wsj.com mailto:rick.schmitt@wsj.com.

From:

Carleton, Norman

Sent:

Thursday, December 20, 2001 5:41 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

Bloomberg column: Michael Lewis ('Liar's Poker) on Enron and Drexel

Is Enron the New Drexel?

Michael Lewis Commentary. Michael Lewis, the author of "Liar's Poker" and "The New New Thing," is a columnist for Bloomberg News. The opinions expressed are his own.

By Michael Lewis

Berkeley, California, Dec. 20 (Bloomberg) -- Enron Corp. is rapidly expanding the American business journalists' notion of what is possible: No story can ever again be said to be too outrageous to be true.

The boss, Kenneth Lay, was a friend of the current president of these United States, an adviser to his administration and one of his biggest financial backers. The company itself was rated "strong buy" by analysts at almost every Wall Street firm, considered a shining example of modern accounting by reputable accounting firms, and plugged endlessly by the business press. Six years running as Fortune's most innovative company! And all the while this same operation was, at the very top, a lie.

Understandably, people long for some analogy to help them grasp this situation, but really there isn't a good one.

Other than failed hedge fund Long-Term Capital Management, Michael Milken's junk bond department at Drexel Burnham Lambert offers the closest parallels on Wall Street, and several people have written to me over the past week to suggest it. But it really is unfair to Milken to compare him to Lay.

Alumni Will Flourish

True, in both cases profitable trading businesses collapsed because their creditors came to distrust the people who ran them. And in both cases the core business - Drexel's junk bonds and Enron's energy trading -- remain viable in the hands of other companies that banks trust.

Just as the Drexel junk bond traders who didn't go to jail went to other Wall Street firms and created replicas of their former business, former Enron traders will soon be making lots of money for one-time rivals such as Dynegy Inc. and Duke Energy Corp. Well before Kenneth Lay emerges from his legal hell, the energy trading business will return to normal.

But the morality of the cases are entirely different. Whatever you think of Milken's junk bond department -- and I think its sins were minor beside its achievements - you must admit the people in it exhibited a certain honor among thieves.

There was never a moment when Milken betrayed the broad interests of his traders for his own narrow ones. He paid himself huge sums of money, but he also made huge sums for his firm. He was careful to watch out for the little people who worked for him, and they loved him for it. The Enron bosses, by contrast, pillaged their firm and left the little people who worked for them holding the bag.

Different Motivations

Enron created the illusion that it was much more profitable than it actually was. Milken created an operation which was, if anything, much more profitable than it looked. What Milken hid was the thuggish manner in which he made his profits.

What Enron hid was the sneaky way it made its losses.

(This is something I still don't understand, and would love for some enterprising reporter to explain, as Enron seems intent on explaining nothing. The off-the-books partnerships that brought Enron down appear to have been a mechanism for hiding bad investments in hard assets -- Turkish gas pipelines, Indian power plants and the like. Why did Enron, which made its money as an intermediary, invest in this stuff in the first place?)

The speed with which the markets have punished Enron reflects the differences between it and Drexel. In Drexel's case, it took a multiyear investigation by the U.S. government, together with a smear campaign in the press, to bring down the business. In Enron's case, all it took was a couple of articles in the Wall Street Journal pointing out, among other things, that senior executives were profiting at the company's expense.

In Drexel's case, the demise of the firm and the jailing of Milken was pretty much the end of the story. In Enron's, the fate of the company and its leaders may open up a much bigger scandal that reaches right up to the top. Anything is possible.

From:

Carleton, Norman

Sent:

Thursday, December 20, 2001 5:36 PM

To:

Cetina, Jill; Salladin, Anne; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew: Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangell, Fred; Roseboro, Brian; Schultheiss, Heidilynne;

Whaley, Jean; Wiedman, Mark

December 20, 2001

Enron, GE, Bechtel Claim US Insurance On India Project

Dow Jones Newswires

WASHINGTON -- Enron Corp. (ENE), General Electric Co. (GE) and Bechtel Corp. (X.BTL) have filed a total of nearly \$200 million in insurance claims with the U.S. government for investment losses in India.

Since last week the three companies have individually filed applications with the Overseas Private Investment Corp. for "expropriation compensation" on their investments in Dabhol Power Co., OPIC spokesman Larry Spinelli said Thursday.

Dabhol Power is a \$2.9 billion power plant and liquefied natural gas, or LNG, import terminal near Bombay in western India. It's considered the largest foreign direct investment in India's history.

"We obviously regard this as a very serious development," Spinelli said of the insurance claims. "And we are looking to the Indian government for constructive involvement to settle these issues."

OPIC is a government agency that finances U.S. companies' overseas investments through insurance and loans. In addition to OPIC financing, the U.S. government is owed \$202.5 million for a loan the Export-Import Bank made to Dabhol Power.

Work on the 2,184-megawatt Dahbol power plant stopped this year after its sole customer, the Maharashtra State Electricity Board, declined to pay earlier-agreed power prices.

Faced with nonpayment, Enron said in August it would consider buyers for its controlling 65% interest in the project. Officials from the bankrupt Houston-based company met last week with Indian lenders and government officials to discuss ways of disposing of its stake.

GE and Bechtel each hold a 10% interest in the project. The Maharashtra State Electricity Board holds the remaining 15%.

Two Indian companies, Tata Power Co. (P.TPW) and BSES Ltd. (P.BSX), have shown interest in bidding for the Dabhol power plant. Royal Dutch/Shell (RD) and BG Group Plc (BRG) have shown interest in the Dabhol LNG import terminal.

-By Campion Walsh, Dow Jones Newswires; 202-862-9291; Campion.Walsh@dowjones.com

From:

Carleton, Norman

Sent:

Thursday, December 20, 2001 5:26 PM

To:

Cetina, Jill: Bair, Sheila: Berardi, Steve: Bitsberger, Timothy: Eichner, Matthew: Gabilondo. Jose: Gross, Jared: Hammer, Viva: Lori Sanatamorena (E-mail): Nickoloff, Peter: Novev.

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ; JP Morgan Chase Surety Bond Suit Names 9 Insurers

December 20, 2001

JP Morgan Chase Surety Bond Suit Names 9 Insurers

Dow Jones Newswires

WASHINGTON -- J.P. Morgan Chase & Co.'s (JPM) suit involving Enron Corp. (ENE) surety bonds names nine major insurance companies as defendants, ranging from Citigroup Inc.'s (C) Travelers unit to Kemper Insurance Co.'s Lumbermens Mutual Casualty Co.

Executives at J.P. Morgan Chase have refused in interviews to identify the insurers they are suing, and the suit itself is not yet publicly available in court files. But a person with knowledge of the case said it names Travelers Casualty Surety Co., Travelers Indemnity Co., Kemper's Lumbermens Co., Allianz AG's Fireman's Fund Insurance Co., Chubb Corp.'s (CB) Federal Insurance Co., St. Paul Cos.'s (SPC) Fire and Marine Insurance, CNA Surety Corp.'s (SUR) Continental Casualty Co., Safeco Corp's (SAFC) Safeco Insurance Co., Hartford Financial Services Group Inc. (HIG), and Liberty Mutual Insurance Co.

J.P. Morgan Chase said Wednesday that the insurers notified it that they don't plan to make a payment due Friday on Enron-related crude oil and gas derivative contracts. The insurers had made commitments in the form of surety bonds of about \$1.1 billion, of which J.P. Morgan Chase's share is about \$965 million.

By Lynn Cowan, Dow Jones Newswires; 202-628-9783; Lynn.Cowan@dowjones.com

From:

Carleton, Norman

Sent:

Thursday, December 20, 2001 11:34 AM

To:

Sharer, James; Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail);

Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne;

Whaley, Jean; Wiedman, Mark

Subject:

Economist: Pensions in America -- The merits of diversity

Pensions in America

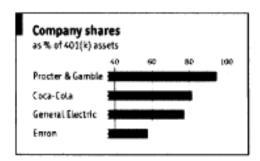
The merits of diversity

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A company pension plan should not be allowed to invest heavily in its own shares

Get article background

DIVERSIFICATION is one of the first rules of any investment strategy. Put too many eggs in one basket, goes the proverb, and you risk losing the lot if things go wrong. Enron's bankruptcy was bad for investors. But for Enron's employees, the bulk of whose retirement savings were in Enron shares, it was a disaster-and one that must be avoided in future.



What is most disturbing is how widespread the practice is in America. As pension funds based on employees' final salaries ("defined benefits") wither away, so-called 401(k) plans are becoming the most common company retirement vehicle. In such "defined-contribution" schemes, employees' ultimate pensions depend entirely on the investment performance of the plans. Yet such blue-chip companies as Coca-Cola, General Electric and McDonald's all have three-quarters or more of their 401(k) plans invested in their own equity. For Procter & Gamble, normally a paragon of best corporate practice, the proportion is almost 95%. Set against these examples, Enron's 58% looks almost reasonable (see article).

How has this come about? Part of the answer is that section 401(k) plans evolved out of previous schemes to encourage employee stock ownership. But there are two other, more questionable explanations. Many companies match employees' contributions to 401(k) plans in the form of company shares, not cash. In some plans (including Enron's), these come with the restriction that the shares cannot be sold until the employee is over 50. The second explanation is that companies offer their staff a relatively small menu of possible investments for their 401(k) plans, one of which is the company's own

shares. Many select this option.

And why not? Nobody is being forced to put his money into a company's shares, after all. Employees of such firms as Microsoft and Wal-Mart have been able to benefit mightily from their growth through share ownership. In general, greater employee share ownership is a healthy way of giving staff more of a stake in their company's success. If lots of workers freely choose to invest their 401(k) plans in the company's shares, even if that offends against portfolio theory, should the government protect them against their own folly?

Yes, it should, for the choice is not as free as it looks. Quite apart from the company's contribution, many managers encourage staff, implicitly if not explicitly, to put their 401(k) money into the company's shares; and they discourage selling. The pressure may intensify if the company's finances are dodgy. The consequences can be severe. Many Enron workers have lost their jobs and their retirement savings in one blow. Worse, thanks to an administrative change that the company made in October, no 401(k) holders, even those over 50, were allowed to sell any Enron shares over a crucial four-week period during which the price fell by over two-thirds.

The simplest remedy would be to legislate that no more than, say, 10% of a 401(k) plan may be invested in a company's own shares. That would replicate the limit set for defined-benefit pension schemes. Several congressional bills to this effect are already being drawn up. The argument for early action is not just to avoid future Enrons, either. Most ideas for reforming Social Security involve its partial privatisation, with beneficiaries investing directly in the markets (see article). If these plans are not to be discredited before they are even tried, Congress should act now to limit the investment of workers' retirement money in their company's shares.

From:

Carleton, Norman

Sent:

Thursday, December 20, 2001 11:30 AM

To:

Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail);

Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schulthelss, Heidilynne;

Whaley, Jean; Wiedman, Mark

Subject:

Economist: Auditors -- Who Fiddled What?

Auditors

Who fiddled what?

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"Errors of judgment" are piling up at Andersen

Get article background

AUDITING is a dull business. But it is also dangerous, as Andersen, the world's fifth-largest firm of accountants, is finding out. Andersen audited Enron for all 16 years since the company's formation. On top of pure audit, it also sold internal-audit and consulting services. But despite this privileged insight, Andersen did not spot the fact that Enron was publishing incorrect financial statements. For failing to do its job, Andersen now faces the wrath and legal claims of thousands of staff, shareholders and creditors who will lose billions from Enron's collapse.

In November, Enron announced that it would restate all its annual financial statements from 1997 to 2000, resulting in a cumulative profit reduction of \$591m and an increase in debt of \$628m. The reason, it said, was that it should have added in three off-balance-sheet entities, vehicles used by some companies to acquire more capital without adding debt to their balance sheets.

How could Enron's auditor have missed all of this at the time? Joseph Berardino, Andersen's chief executive, admitted to Congress last week that his firm made an "error of judgment" over one of the vehicles. But most of Enron's restatement, he said, came from a bigger "special purpose" vehicle called Chewco: Enron's management did not provide the information about Chewco that would have led Andersen to insist on its consolidation. He said Andersen warned Enron's audit committee about "possible illegal acts".

Enron is fighting back. It says that it not only discovered and reported the relevant information on Chewco to Andersen, but that Andersen was involved in "real-time" audit procedures on all of its main structured-finance vehicles. If Andersen is found actually to have advised on the design of Enron's off-balance-sheet vehicles, as the company implies, it will find it hard to plead ignorance over their construction.

The Securities and Exchange Commission (SEC) is investigating Andersen's audit work on Enron, and lawsuits have been filed against the firm; doubtless more light will be shed on what happened. But already, some observers are questioning whether Andersen will survive in its present form. This year, the SEC imposed a \$7m fine on Andersen for signing the accounts of Waste Management, another Texas firm, knowing that the accounting methods it had used were designed to mislead investors. In the spring, Andersen paid \$110m to settle an accounting-fraud lawsuit over auditing work it did for Sunbeam, a Florida consumer-products company that filed for bankruptcy. Given all these cases, it is

even possible that the SEC may bar Andersen from taking new audit clients for a time. If plaintiffs are successful, the firm may have to pay out many more millions in compensation.

Mr Berardino's defence, beyond accusing Enron of withholding information, is that the accountancy profession as a whole is at fault, and a few others as well, such as credit-rating agencies and investment bankers. The heads of the other "big-five" accountancy firms joined in: the standard setters are too slow, they said, and failed to produce adequate rules on off-balance-sheet vehicles: the financial reporting model is outdated and there should be firmer regulation and discipline, and improvements to audit effectiveness.

There is truth in this, but it remains to be seen how much change the American accounting profession will accept. At the moment, auditors are supposedly kept honest by a longstanding system of self-regulation, in which big firms conduct "peer reviews" of each others' audit practices. The Public Oversight Board, which monitors the process, lacks independence from the accounting profession, which funds and staffs it, and has little ability to punish miscreant auditors. Lynn Turner, a former chief accountant of the SEC who is now at Colorado State University, says that America would do well to adopt something like Britain's new, independent system for upholding audit standards.

The large part played by special purpose vehicles in Enron's collapse has spurred the Financial Accounting Standards Board (FASB) to revisit its rules on how to account for them. Up to now, the FASB has been chary of using the notion of control, rather than ownership, to decide on consolidation, because of its subjectiveness. That, some say, has led to a too-lenient standard. Andersen did not follow the existing rules anyway, says the FASB, which in the case of Enron's off-balance-sheet entities required consolidation.

Will auditors blow the whistle on future Enrons? The big firms argue that every recession throws up a number of corporate failures and tales of auditing mistakes: they simply pay up and wait for the next. The sheer scale of Enron's demise, though, is likely to demand some meaningful change. Last year, the oversight board's panel on audit effectiveness made some simple suggestions. It said that auditors should use forensic methods. Audit thoroughness, as well as fee generation, should feature in deciding pay and promotion. It should be the audit committee, not management, that decides whether an auditor should be allowed to carry out non-audit work over a certain value.

The worst outcome of the Enron affair, for accounting firms, would be that regulators ban them from selling consulting services to those they audit. Big firms worry that if they were left with audit alone, which for most people is a tedious task, their ability to recruit talented staff would evaporate-and they might as well hand the job to a government agency. Better audits would be the best way to assure regulators that such a ban is unnecessary.

From: Sent:

Carleton, Norman

Thursday, December 20, 2001 10:46 AM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

WSJ: J.P. Morgan Says Exposure to Enron Is \$1 Billion Above Earlier Estimates

December 20, 2001

J.P. Morgan Says Exposure to Enron Is \$1 Billion Above Earlier Estimates

By JATHON SAPSFORD and KATHY CHU

Staff Reporters of THE WALL STREET JOURNAL

J.P. Morgan Chase & Co. said its exposure to Enron Corp. was nearly \$1 billion more than the \$900 million that it has already disclosed, which is likely to raise concerns among investors whether the bank has even more exposure to the energy trader lurking beneath the surface.

The bank said it has sued several insurance companies which are seeking to back out of commitments to assure \$1.1 billion in payments related to crude-oil and gas contracts. Of that \$1.1 billion, \$965 million is owed to J.P. Morgan Chase. The bank's litigation seeks to force the insurers to make good on the payments.

The development underscores the extensive ties between the nation's banks and the energy trader. An official familiar with the matter said one of the several insurers seeking to back out of the agreement is a unit of Citigroup Inc., which along with J.P. Morgan Chase represented Enron in its failed attempt to merge with rival energy trader Dynegy Inc.

[Go]See full coverage of the rise and fall of Enron.

In a related development, a European financial institution has failed to make payment to J.P. Morgan Chase on a \$165 million letter of credit linked to a swap contract, the bank said. The bank said it would seek legal enforcement of the letter of credit. The bank didn't disclose the name of the institution.

J.P. Morgan officials insisted that with this disclosure, the bank was coming clean about its total exposure to Enron. Yet it had made similar assurances when it made the earlier disclosure of overall exposure of \$900 million around the time Enron filed for bankruptcy.

The bank said that as a result of Enron's failure, it would take a charge of \$220 million in loans during the fourth quarter, and a further \$235 million reduction in fourth-quarter trading revenue.

Separately, a New York federal bankruptcy judge granted Enron's motion to expedite the auction of a

majority stake in its core energy-trading operations, setting a Jan. 7 deadline for bids.

Enron, which filed for Chapter 11 bankruptcy-law protection on Dec. 2, has said that the sale of its trading operations to a company with a stronger balance sheet is a vital part of its restructuring plan.

"We're worried that if we delay any longer, we won't have a trading company to sell," said Martin Bienenstock, of Weil Gotshal & Manges, which represents Enron. The auction is also "urgently" needed, he said, because Enron traders may leave if business doesn't pick up soon. All new trading activity has ceased because Enron doesn't have capital to finance the transactions.

Enron has been negotiating with both Citigroup and UBS AG to take control of the unit, according to people familiar with the matter, but it is unclear whether either company will emerge with a bid for others to top in the court auction.

Write to Jathon Sapsford at jathon.sapsford@wsj.com and Kathy Chu at kathy.chu@wsj.com and Kathy chu@wsj.com

From:

Carleton, Norman

Sent:

Wednesday, December 19, 2001 11:42 AM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

WSJ: Enron Workers Face Losses On Pensions, Not Just 401(k)s

December 19, 2001

Money & Investing

Enron Workers Face Losses On Pensions, Not Just 401(k)s

By ELLEN E. SCHULTZ

Staff Reporter of THE WALL STREET JOURNAL

Many Enron Corp. employees will suffer even greater losses to their retirement income than was immediately apparent in the wake of the energy-trading company's sudden downfall.

It is well known that many **Enron** employees will take big hits in their 401(k) retirement-savings plans because much of their investments were in company stock. What has been largely overlooked is that the pensions of many employees also will be reduced as a result of complex, interrelated changes involving pension and retirement-savings plans.

The decline wasn't caused by investments in the pension plan, which by law cannot invest more than 10% of its assets in the company stock. Rather, it stems from ways that companies such as **Enron** have increasingly coordinated their pensions, 401(k)s and employee stock ownership plans (ESOPs) to reduce costs for the company and shift investment decisions to employees. **Enron** had no comment

Lawmakers, reacting to the decimation of the savings of many employees in Enron's 401(k) have begun calling for legislation that would hold savings plans to the same standards as pensions. Employees suffered steep losses in their 401(k) plans because more than 60% of the assets were in Enron's stock at one point, and the stock has dropped to about 50 cents a share from a peak of \$90 last year.

But Enron's situation reveals that employees' retirement benefits are exposed to company stock in more than their 401(k) plans.

Employees share some of the responsibility for this overexposure. That's because to some extent

employees could have limited their retirement-related holdings of **Enron**, if they had taken the right steps at the right time, though many didn't because the stock was long a highflier.

One of these is Kenneth Parrish, an electrician at Portland General Electric, an **Enron** subsidiary, who essentially has lost additional benefits related to his pension from Jan. 1, 1999. That was when the pension plan for unionized employees, including Mr. Parrish, was changed. The pension benefit they already had earned was frozen; instead of continuing to add to the pension, the company gave a cash contribution of 5% of employees' pay to their 401(k) plan, where they could put it into a variety of investments, including **Enron** stock.

Unfortunately, Mr. Parrish and many others elected to put the pension-related contribution into **Enron** stock, along with his own 401(k) savings. "It seemed like such a good investment," says Mr. Parrish, who is 43 years old. Moreover, the company's matching contribution to his 401(k) was in **Enron** stock that couldn't be sold till the employee turned 50. As a result, the value of his savings plan, including the pension amounts, fell from about \$200,000 to a couple of thousand dollars.

Mr. Parrish, a single father of two daughters, who are 16 and 17, now isn't sure what he will do. "I got doubly slammed," he says. "Not only did I lose all my retirement savings, I lost the pension savings, too." He is selling his house and planning to buy a trailer. "This ruined me," he says.

Meanwhile, salaried workers at **Enron** had a different kind of pension arrangement that exposed them to fluctuations in **Enron** stock. The company coordinated their pension plan and their employee stock ownership plan, so that the value of their ESOP accounts permanently erased benefits in their pensions.

That is because **Enron** had a "floor-offset" arrangement, which has been used by many companies, including Hewlett-Packard Co. and Airborne Inc. These arrangements are intended to provide participants with the "better of" the two plans, the savings plan (either an ESOP or a profit-sharing plan) and the pension.

In a simple floor-offset arrangement, if an employee leaves the company and his ESOP account is worth, say, \$60,000, the company figures out how much this would be worth if it were converted to an annual pension in retirement. In this case, the ESOP's equivalent value might be \$6,000 a year in retirement. If the employee has already earned a pension worth \$50,000 a year in retirement, the employee wouldn't get \$56,000 a year — the combination of the two — but just \$50,000. (The \$6,000 annual ESOP value is subtracted from the pension, so the person ends up with an annual pension of \$44,000, plus the \$6,000 a year from his ESOP account of \$60,000.)

If the ESOP performed really well, and was worth, say, \$70,000 a year if converted to a pension, the employee would simply keep the ESOP, and not get the pension. If the ESOP didn't perform well, the pension would serve as the "floor" benefit. In other words, even if the ESOP fell to zero, the employee would still have his full pension of \$50,000 a year.

But it didn't work this way at **Enron**, even though the ESOP accounts have become virtually worthless because of the decline in Enron's stock. In an unusual arrangement, **Enron** calculated the ESOP "offsets" based on the price of the stock from 1996 to 2000, when it was trading between \$37.75 and \$43.44. It then used the locked-in value of the ESOP accounts to permanently offset the value of pensions that employees had earned between January 1987 and January 1995.

In other words, **Enron** has reduced the amount of the pension by subtracting the former — and far higher — value of the ESOP, even though the ESOP today has virtually no value and thus can't make

up for the difference.

Employees might have been all right if **Enron** stock had continued to rise, because gains in the accounts could eventually have made up for the permanent offset. (The increases would have depended completely on stock appreciation, because the company stopped contributing to the ESOP in 1995.)

"It was as if someone assumed the stock would never drop," says Stephen Bruce, a pension lawyer in Washington, D.C. "It was a bad deal if the stock dropped," he says, because this precluded employees from ever making up for the permanent offset.

Employees will still receive their pensions — albeit at the reduced values. How much employees lost depends on the size of the pension they had earned, and the value of their ESOP accounts from 1996 to 2000.

Employees did have some opportunity to protect themselves from the subsequent exposure to **Enron** stock in their ESOP. One time each year from 1996 to 2000, employees could transfer one-fifth of the value of their ESOP accounts into a 401(k) or an Individual Retirement Account and diversify out of company stock.

Separately, Sens. Barbara Boxer (D., Calif.) and Jon Corzine (D., N.J.) said Tuesday they will propose limits on the amount of company stock employees can hold as part of their 401(k) retirement plans.

The proposed legislation would limit employee 401(k) investments in company stock to 20%, and it would limit to 90 days the period of time an employer can require its workers to hold a matching stock contribution before divesting themselves of it.

Bryan Lee contributed to this article.

From: Sharer, James

Sent: Tuesday, January 15, 2002 4:43 PM

To: __DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarig; wayneea

Subject: Financial Markets Night Report 1/15/02

U.S. equities moved higher, bolstered by strength in financial and bank stocks.

- Treasury prices moved higher ahead of tomorrow's slate of U.S. economic data.

U.S. equity markets closed with modest gains in active trading, aided by strength in financial and bank issues. Analysts await earnings news after the close from Intel Corp. and Juniper Networks. The NYSE suspended trading in Enron Corp. and plans to delist the stock following the financial collapse of the firm late last year. K-Mart fell 13.7% to \$2.45 and is down 55% since December 31 on expectations the firm may soon file for bankruptcy. The best stock performers today were financial, bank, software, oil, insurance and computer issues.

Analysts expect tomorrow's CPI report for December will be unchanged following an unchanged report in November. The December core CPI is seen up 0.2% after rising 0.4% in November. The December industrial production report is expected to be unchanged, while capacity utilization is seen edging down to 74.6% from 74.7% in November. The Fed's "Beige Book" report is scheduled for release at 2 PM tomorrow.

Treasury coupon prices were unchanged to up 5/8 point in moderate trading. Traders noted reduced concerns over inflation, the unwinding of corporate hedges and remained influenced by Fed Chairman Greenspan's recent words of caution regarding the U.S. economy. Treasury auctioned today \$6.0 billion 4-week T-bills to pay down \$6.0 billion. The results were as follows:

Awarded rate: 1.605% Coverage ratio: 4.59 times

Today's awarded rate compares with last week's awarded rate of 1.660%.

The January Federal funds futures contract was unchanged at 1.72%, while the February and March contracts rose 2 bps and 1 bp to 1.61% and 1.59%, respectively.

The February crude oil contract edged up \$0.01 to \$18.90 a barrel ahead of API oil inventory data tonight. The February natural gas contract rose \$0.04 to \$2.29 per million btu. Spot gold fell \$1.00 to \$284.10 an ounce.

The dollar appreciated 1.3% against the euro and was 0.5% weaker against the yen. The dollar was 0.6% firmer against the British pound and 1.0% firmer against the Swiss franc. The Canadian dollar firmed 0.4% following today's BOC 25 bps easing. The BOC has eased eleven times since the start of 2001 for a total of 375 bps.

Latin American equity markets closed mixed, with the Bolsa outperforming by climbing 2.9%. Mexico's peso firmed 0.3% on news that Fitch boosted the country's debt rating to investment grade (to BBB- from BB+). The Argentine peso was bid at 1.90. Brazil's real firmed 0.8% and Bovespa edged lower by 0.9%.

The EMBI+ spread widened 3 bps to 732 bps over the comparable Treasuries. Other EMBI+ sub-indexes narrowed on the day, including Argentina (-38 to 4639), Brazil (-9 to 863). Mexico's sub-index was flat at 319, while Turkey's sub-index rose 15 bps to 702 bps.

Tomorrow's Events:	Time	Consensus Expectation	Previous Period
JPN BOJ Policy Board Meeting		•	
UK Claimant Jobless, Dec.		+7,000 m/m	+4,800 m/m
US CPI, Dec.	8:30 AM	unch	unch
US Business Inventories, Nov.	8:30 AM	-0.7%	-1.4% m/m
US Industrial Production, Dec.	9:15 AM	unch	-0.3% m/m



From:

Carleton, Norman

Sent:

Friday, January 11, 2002 10:53 AM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael: Bistopage Basebare, Brist, Schultheire, Haidibane: Whaley, Jean

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

FT: Power politics

Power politics

The furore over Enron is starting to raise some uncomfortable questions about the Bush administration's links with the collapsed energy giant, says Peter Spiegel Published: January 10 2002 20:12 | Last Updated: January 10 2002 20:18

Home states have not been friendly to recent American presidents. For most of his administration, Bill Clinton found himself haunted by his financial dealings in Arkansas. Disquiet over a failed land development called Whitewater led to an investigation by an independent prosecutor that almost brought down his presidency.

Now George W. Bush is starting to find embarrassment in his proud Texas roots. The Lone Star State, of which Mr Bush used to be governor, is also home to Enron, the energy trading company. Enron's spectacular collapse has prompted a criminal investigation and spurred Mr Bush to order on Thursday a sweeping review of federal pension rules and corporate financial disclosure regulations.

Mr Bush's own connections to the company extend back to his time as Texas governor, when Kenneth Lay, Enron chief executive, was head of the governor's business council. Mr Lay was an early and eager supporter of Mr Bush's presidential campaign, signing on as a "pioneer" who raised more than \$100,000 for the race. Enron and its executives donated \$114,000 themselves.

But Mr Lay's ties to the Bush family go back even further. He was a strong supporter of Mr Bush's father, going so far as to hire former cabinet members James Baker and Robert Mosbacher as Enron consultants after the 1992 election defeat. The president said yesterday that he had last seen Mr Lay at a literacy fund-raising event organised by Barbara Bush, his mother. "I have never discussed with Mr Lay the financial problems of the company," he added.

For the Bush administration, the growing Enron controversy is proving a delicate tightrope. On the one hand, Mr Bush appears eager to be seen as above the fray, ordering executive branch agencies to pursue Enron without fear or favour. On the other, his stubborn and influential vice-president, Dick Cheney, has been unwilling to release records regarding contacts his energy taskforce had with Enron while it was formulating the administration's energy legislation, now before Congress.

"The vice-president could have put a lid on this early on," says Tom Fitton, president of Judicial Watch, a conservative group that is sueing for Mr Cheney's taskforce records. "Instead, he's painted himself into a corner. Supporters of the Bush administration have to ask themselves what would have been their reaction if the Clintons came out with this. They would have gone ballistic."

Mr Cheney also has links with Enron, as recent disclosures about a meeting between him and Mr Lay in Washington last April have illustrated. The two had got to know each other in Texas, where Mr Cheney was chief executive of Halliburton, another Houston-based energy company. Indeed, Mr Lay and Mr Cheney had worked closely on one of the city's most prominent new landmarks, a baseball stadium for the home-team Astros, which was built by a Halliburton subsidiary and bears the name of Mr Lay's company: Enron Field.

On his trip to Washington last April, Mr Lay did not want to talk baseball. California was in the middle of an energy crisis - the state's largest investor-owned utility, Pacific Gas and Electric, had just filed for bankruptcy. Enron, which had helped to formulate the state's electricity deregulation plan, was facing criticism.

Neither Mr Lay nor Mr Cheney has talked in detail about what the two discussed in the half-hour session. A Cheney aide disclosed this week that the meeting was generally about "energy policy matters", including the California situation. But the sit-down, along with five other contacts between Enron representatives and the staff of the vice-president, who chaired Mr Bush's energy taskforce, has begun to raise questions.

Henry Waxman, a senior Democrat member of the House energy and commerce committee, which is conducting an inquiry into Enron's collapse, notes that the day after the Cheney-Lay meeting, the vice-president gave an interview to the Los Angeles Times in which he stated that the administration would not support price caps on electricity. Conservatives in Washington have long resisted price caps of any kind, and opposition from the Bush administration was not particularly surprising. The coincidence is nonetheless awkward.

These are not the only links between the administration and Enron. Both Lawrence Lindsey, the White House economic adviser, and Robert Zoellick, the US trade representative, were employed as consultants by Enron before taking jobs with Mr Bush. While there is no evidence so far of impropriety by any White House official, the saga reinforces past questions over whether Mr Bush's administration does the bidding of moneyed interests and corporations that provide political donations.

"Enron is just one example of these self-interested energy companies that had special access," says John Walke, a lawyer for the Natural Resources Defence Council, an environmental group that has sued the administration seeking documents about how Mr Cheney's energy taskforce formulated the White House's energy legislation.

Indeed, the taint of even an arm's-length association with Enron has become so great that several high-profile political groups have decided to forgo contributions from the company. The Republican Governors Association recently returned a \$60,000 Enron donation, and the National Republican Senatorial Committee - the arm of the Republican party responsible for Senate races - sent back two cheques totalling \$100,000. The Democratic Senatorial Campaign Committee - which received an identical \$100,000 Enron donation - donated the money to charity.

Congressional inquiries into the ties between the Bush administration and Enron have their perils for Democrats as well. Senator John Breaux, a powerful conservative Democrat, has called for the White House to disclose all contacts with Enron, a move Mr Cheney in particular has resisted. But Mr Breaux himself received more than \$11,000 in donations from Enron over the past decade, according to the Centre for Responsive Politics, a watchdog group. He is not alone. Senator Jeff Bingaman, chairman of the energy committee, has been a recipient of thousands of dollars of Enron's largesse, as has Congressman John Dingell, the top Democrat on the House energy and commerce committee and one of the most outspoken critics of Mr Cheney's dealings with the company. Linda Robertson, formerly a senior lobbyist for Enron, was an assistant Treasury secretary in the Clinton

administration.

The question of whether Enron bought influence in Washington is not the only one facing the administration. A separate investigation is being carried out by Senator Joseph Lieberman, chairman of the government affairs committee, into the role of federal regulators. So far, the most embarrassing revelation has been the role of Wendy Gramm, wife of Phil Gramm, a Texas senator, who served as the chairman of the Commodities Future Trading Commission before joining Enron's board of directors. While at the CFTC, she kick-started regulations that exempted some energy trading from government oversight, a move backed by Enron. Mrs Gramm is now a member of the auditing committee of Enron's board, which has come under scrutiny.

The announcement by Mr Bush on Thursday will only add to the pressure on Washington figures such as Mrs Gramm whose ties to Enron are now proving embarrassing. So far, the Enron affair has been far less awkward for the administration than Whitewater was for Mr Clinton. Nor is there any sign that any Bush official had direct knowledge of, or involvement in, the financial mismanagement of the company. But Texas, like Arkansas, has come to Washington.

From: Carleton, Norman

Sent: Friday, January 11, 2002 9:47 AM

To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose;

Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject: FW: 1BN) Treasury's O'Neill Comments on Enron Calls, Disclosur

----Original Message-----

From: Lori.Santamorena@bpd.treas.gov [mailto:Lori.Santamorena@bpd.treas.gov]

Sent: Friday, January 11, 2002 8:40 AM To: norman.carleton@do.treas.gov

Subject: 1BN) Treasury's O'Neill Comments on Enron Calls, Disclosur

---- Forwarded by Lori Santamorena/BPD on 01/11/02 08:39 AM ----

"PUBLIC DEBT, US DEPT OF TREASURY"

<98R88bloomberg.net>

To: 1santamorena@bpd.treas.gov

con t

1BN] Treasury's O'Neill Comments on

01/11/02 08:17 AM

Subject: Enron Calls, Disclosur

Treesury's O'Neill Comments on Enron Calls, Disclosure Rules 2002-01-10 19:35 (New York)

Mashington, Jan. 10 (Bloomberg) -- The following are comments from U.S. Treasury Secretary Paul O'Neill on his conversations with Enron Corp.'s chairman Ken Lay prior to Enron's bankruptcy and a review by government regulators of the adequacy of corporate disclosure rules. O'Neill spoke during interviews on Cable News Network and CMBC.

"My first call from Ken Lay was for him to give me a headsup that they were struggling and to offer the president of his company to speak with the Undersecretary of Domestic Finance (Peter Fisher) to understand the positions they had so we could make sure that we were taking care of our responsibility, which is to make sure that the U.S. capital markets work," O'Neill told CNN.

CNN.

That was the purpose of Ken's call to me, to let me know we were welcome to have access to information so we could understand what they were doing and the possible exposure to the world's capital markets.

capital markets.

'The second call, Ken called me to tell me they were in discussions with Dynergy and it was an information-only call. Subsequently, (Commerce Secretary| Don Evans called me to say he'd had a call and that Ken had told him that rating agencies were looking at them and there was real concern if the rating agencies downgraded them that that could effectively scupper the deal with Dynergy,' he said.

On what he did following the call:

"I subsequently asked (Fisher) to speak with the Enron people, which he did, so that we could satisfy ourselves that the

01/16/2002

Enron affairs were not going to have a negative impact on U.S. capital markets," O'Neill told CNBC.

On whether he thinks whice rules were broken:
"I thought it was business as usual," he told CNBC. "I get
calls every day from the big players in the world. Enron was the biggest trader of energy in the world. So I was not surprised at all that I would get a call asying we've get a problem over here and you should know about it. "

On whether he was he asked by Ken Lay for a government bailout: 'Absolutely not,'' he told CNBC. 'One of things I enjoy about Treasury is I don't have a lot of givenway programs so if he wanted a giveaway from the government he sure wouldn't have called me. I don't know if one were inclined to make bailouts why there would be a bailout for a company that's gotten itself into trouble. If you want to look at recent Chapter 11 filings or Chapter seven filings you can look at Bethlehen Steel and Sunbeam and they don't call the government for a bailout. I ran a Fortune 50 company, it never would have occurred to me to call the government for a bailout if I got my company in trouble."

On what President George W. Bush has asked him to do today: The president tasked me to one, head a committee that includes Don Evans and (Labor Secretary) Elaine Chao to look at the Enron case and other bankruptcy cases to pay special attention to the question of whether we need to smend the rules that govern pension plans and 401k plans to provide a greater deal of assurance to individuals who have a stake in pension plans and 401k plans," he told CNN. That is driven by the president's concern about the individual employees. The president said to me we need to see if there is something we need to do so that we learn from this. If there is a weakness in our rules let's fix the

rules." And the second committee the president asked me to convene is one that's a standing committee, the president's economic committee. That includes myself and Alan Greenspan, the head of [the Commodities Futures Trading Commission] and Hervey Pitt of the SEC. The charge the president's given us is to look at the Enron case and other cases and see if we need to adjust the disclosure rules so that shareholders and employees have all the information they need to make intelligent decisions. This is not about Enron, this is about making sure the rules that govern the way our economic system works are worthy of the conditions that we're dealing with these days to assure that individuals are not hurt because of a weakness in our rules. "

--Simon Kennedy in the Washington newsroom (202) 624-1834, or at skennedy4@bloomberg.net /jo

Story illustration: For graph of Enron's stock price, type: (ENE US <Equity> GFO D <00>)

ENE US «Equity» CN

NI TRE

NI SEC

NI SCR

NT LAM NI ACC

NI CNG

NI PIN

NI GOV NI US

NI TX NT NY

NI MASD

NI OIL

NI PIP NT NRG

NI GAS

NI ERN

NI EKS NI CNG

NT LAW

NI RULES

NT VOICES

#<40533>#

01/16/2002

-0- (BN) Jan/11/2002 0:35 GMT

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 6:01 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: Ashcroft Recuses Self From Enron Investigation

January 10, 2002

Ashcroft Recuses Self From Enron Investigation

By Mark Wigfield of DOW JONES NEWSWIRES

WASHINGTON -- Attorney General John Ashcroft and his chief of staff David Ayres have recused themselves from the investigation of Enron Corp. (ENE).

In a prepared statement, the Justice Department said Ashcroft's decision was "due to the totality of the circumstances of the relationship between Enron and the Attorney General." Ashcroft hasn't been involved in any aspect of the investigation to date, the Justice Department said.

The statement didn't explain why Ashcroft and Ayres were recusing themselves. However, according to the Center for Responsive Politics, Enron gave \$25,000 in so-called "soft money" to the Ashcroft Victory Committee in the 2000 election cycle.

Enron Chairman Kenneth Lay also gave the Ashcroft Victory Committee \$25,000. The committee provided funds to the National Republican Senatorial Committee and Ashcroft's failed campaign for re-election to the Senate.

Enron's political action committee also gave Ashcroft's Senate campaign \$4,999 in the 2000 cycle, while employees of the company gave \$2,500, according to the Center for Responsive Politics. The group analyzes campaign finance filings.

Deputy Attorney General Larry Thompson will oversee the investigation in Ashcroft's absence, the Justice Department said.

Ashcroft's recusal is another indication of the company's ties with the Bush administration. Enron also contributed to President George W. Bush's election campaign, and the White House has acknowledged that Vice President Dick Cheney or his aides met six times with Enron representatives on energy issues last year, with the final meeting held six days before the company's financial condition was known.

However, White House spokesman Ari Fleischer told reporters Wednesday that he wasn't aware of anyone in the White House who discussed Enron's financial situation.

The Justice Department Wednesday confirmed that it is forming a special task force to combine the efforts of prosecutors nationwide who are investigating **Enron**. The nation's largest energy trader filed for protection from creditors under federal bankruptcy law after its market value plunged upon disclosures that it apparently misrepresented its financial condition.

-By Mark Wigfield, Dow Jones Newswires; 202-828-3397; mark.wigfield@dowjones.com

The Justice Department said Ashcroft made his decision without knowledge of a letter sent to him Thursday by Rep. Henry Waxman, D-Calif., that raised questions regarding Enron's campaign contributions to Ashcroft.

"As welcome as the Department of Justice's involvement is, it raises an awkward question regarding your own personal background with **Enron**," Waxman wrote. "As you know, during your last election campaign in 2000, **Enron** was one of your largest contributors."

Waxman also cited Federal Election Commission records showing that Ashcroft had received contributions from **Enron** and its employees totaling more than \$60,000 since 1994, including a \$1,000 1994 contribution from Enron's Kenneth Lay, when Ashcroft first ran for the Senate.

Waxman also cited criticism by the campaign finance watchdog group, Common Cause. The group last January complained to Senate Judiciary Committee Chairman Patrick Leahy, D-Vt., that the Ashcroft Victory Committee illegally mixed non-federal "soft money" that can only be used for party building activities with "hard money" that can go directly to an election campaign in an effort to exceed federal campaign contribution limits.

Leahy was ranking Democrat of the panel at the time because the Senate was still controlled by Republicans.

Waxman didn't recommend a specific course of action for Ashcroft. But "at a minimum, I would hope that you would immediately fully disclose your past background and contacts with **Enron** and seriously consider whether it is appropriate for you to be involved in the criminal investigation of **Enron**," he wrote.

The Justice Department said Ashcroft "voluntarily recused himself from any **Enron** matter," with the concurrence of Justice Department ethics officials.

In a statement, Leahy praised Ashcroft's decision.

"Attorney General Ashcroft has taken the appropriate step, and I commend him for it," Leahy said. "I have full confidence in Deputy Attorney General Larry Thompson and his ability to pursue this investigation."

-By Mark Wigfield, Dow Jones Newswires; 202-828-3397; mark.wigfield@dowjones.com

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 5:59 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabillondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: US O'Neill Focuses On Regulatory Reform In Enron Review

January 10, 2002

US O'Neill Focuses On Regulatory Reform In Enron Review

NEW YORK -- U.S. Treasury Secretary Paul O'Neill said Thursday that he would focus on regulatory reform as part of President George W. Bush's newly announced probe of Enron Co. (ENE).

O'Neill told Fox News Channel that he would be part of two task forces stemming from the issue.

In the first, he would join Commerce Secretary Don Evans and Labor Secretary Elaine Chao to look at the impact of recent corporate bankruptcies on pension benefits.

In the second, he would join Federal Reserve Chairman Alan Greenspan, Commodities Futures and Trading Commission Chairman James E. Newsome and Securities and Exchange Chairman Harvey Pitt in looking into disclosure rules. O'Neill said they will determine whether changes are needed "to assure that investors and markets have all the information they are entitled to have to make our freemarket economy work properly."

In ordering the probe, Bush particularly pointed at the loss of pension benefits by employees at Enron, which filed for bankruptcy last month. As Enron's stock collapsed, employees were barred from selling the company's shares while the energy trading company was changing pension administrators and the accounts were frozen.

Asked for specific solutions, O'Neill suggested that the government needed to see if 401(k) and other pension accounts need to be locked up when new administrators come in.

"We need to look at that and see if that is a sensible thing to do." he said.

But beyond that, the Treasury secretary refused to be pinned down on possible remedies. "I think we need to do a study and we need to do analysis," he said.

"We need to do analysis before we do prescription. It's a pretty good idea to figure out what disease exists before we start cutting off arms and legs," he added.

O'Neill also stressed that this effort is motivated by Bush's concern for Enron's employees. The Treasury secretary said the president is "just hurting a lot for people who apparently accumulated all of their savings in a 401(k) plan and then lost it all in a couple of months."

-By Paul Rekoff, Dow Jones Newswires; 201-938-4370; paul.rekoff@dowjones.com

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 5:57 PM

To:

Cetina, Jill; Bair, Sheila: Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: CAPITAL VIEWS: An Interesting Day In The Enron Trenches

January 10, 2002

CAPITAL VIEWS: An Interesting Day In The Enron Trenches

By JOHN CONNOR

A Dow Jones Newswires Column

WASHINGTON -- Today was a big day on the Enron front, with key developments coming fresh on the heels of Wednesday's new that the Justice Department has opened a criminal investigation of Enron's bankruptcy.

To briefly review the bidding:

 Arthur Andersen, LLP, already taking heavy fire for its auditing of the now-bankrupt Enron Corp. (ENE), told the Justice Department and the Securities and Exchange Commission that individuals at the firm "disposed of a significant but undetermined amount" of documents relating to its Enron work.

Andersen said the destruction, encompassing both paper documents and e-mail, was done in recent months by individual employees involved in auditing Enron. The number of individuals involved was not specified.

 White House Press Secretary Ari Fleischer disclosed that Enron Chairman Kenneth Lay, a big campaign contributor to George W. Bush, contacted two senior Bush Administration officials last fall. The officials in question were Treasury Secretary Paul O'Neill and Commerce Secretary Don Evans. The contacts sound in the telling like a bid for help.

Fleischer related that O'Neill said he had been contacted by Lay last fall and that Lay brought to O'Neill's attention "his concerns about whether or not Enron would be able to meet its obligations. And he expressed his concern about the experience that Long-Term Capital (Management) went through....

"Secretary O'Neill then contacted (Treasury) Undersecretary (Peter) Fisher to ask him to evaluate whether the comparison was apt, and the Department of the Treasury advised that it was not apt as a result of Secretary Fisher's review," Fleischer recounted.

Peter Fisher to center stage once again. As a senior official of the Federal Reserve Bank of New

York, Fisher played a leading role in cobbling together a non-government-funded financial Heimlich Maneuver for the strickened LTCM, animinated in that effort by concerns of systemic risks. Sounds like Lay was trying to float the systemic risk possibility - and Fisher blew it away.

Told by a questioning reporter that it sounds like Lay was asking for a bailout, the White House Press Secretary said, "I don't characterize it one way or another, I just report to you what was said. I leave the characterization to others. That was the conversation with Secretary O'Neill."

He later added that O'Neill told him the O'Neill-Lay conversation occurred in October.

With respect to the O'Neill and Evans conversations with Lay, Fleischer told reporters, "This
morning, Secretary O'Neill and Secretary Evans made the information known, and we immediately
shared it and provided it to you."

Asked specifically when President Bush learned that the two secretaries had talked to Lay, Fleischer said, "This morning."

Attorney General John Ashcroft, another recipient of Enron campaign contributions during his
unsuccessful Senate race in 2000, recused himself from the Enron investigation, as did David Ayers,
Ashcroft's chief of staff who previously served as his campaign manager.

Earlier in the day, Fleischer at the White House had said that "the president has full faith and confidence in the professional prosectors of the Department of Justice, and in the attorney general, to get to the bottom of all the allegations of criminal wrongdoing by **Enron**."

 Speaking of the president and Enron, Fleischer was asked when Bush learned of Enron's financial difficulties. "He learned last fall," the press secretary said.

"And I couldn't tell you if he learned as a result of media accounts when everybody wrote that Enron had gone bankrupt or through other any other mechanism," Fleischer added. "He learned last fall."

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 4:55 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: WHITE HOUSE WATCH: Enron Story Heats Up At White House

January 10, 2002

Dow Jones Newswires

WHITE HOUSE WATCH: Enron Story Heats Up At White House

By ALEX KETO

A Dow Jones Newswires Analysis

WASHINGTON -- The long-simmering story over the collapse of Enron (ENE) and its political contributions to President George W. Bush heated up considerably Thursday with the revelation that Enron Chairman Kenneth Lay pleaded for help from the administration while his company was going down in flames.

Administration officials turned Lay down, but the news brings the issues of political contributions and political favors into uncomfortably close proximity.

For his part, Bush said he was out of the loop.

"I have never discussed with Mr. Lay the financial problems of the company. The last time that I saw Mr. Lay was at my mother's fund-raising event for literacy in Houston. That would have been last spring," Bush said.

Bush went on to say he wants to see a full investigation into Enron's bankruptcy, the largest in U.S. history.

"What anybody's going to find out is that this administration will fully investigate issues such as the Enron bankruptcy, to make sure we can learn from the past and make sure workers are protected," Bush said.

Nevertheless, the White House appeared to be buffeted by fast-moving events with White House spokesman Ari Fleischer denying at midday there was any conflict of interest in having Attorney General John Ashcroft, who received political contributions from Enron as a Senate candidate, oversee a criminal probe of the company's bankruptcy. Less then two hours later, Ashcroft and a top aide recused themselves from the investigation.

Shortly after the Ashcroft announcement, Arthur Andersen LLP, the company that served as Enron's auditors, announced that a "significant" number of the company's documents and records had been destroyed. Both federal and congressional investigators have been seeking the documents.

Fleischer said that during the autumn Lay called Treasury Secretary Paul O'Neill to warn him that Enron was on the verge of collapse, and Lay said the bankruptcy of his company could be as destabilizing as the implosion of the Long-Term Capital Management hedge fund in the late 1990s.

However, upon investigation, the Treasury Department rejected Lay's arguments.

Later, Lay called Commerce Secretary Don Evans to say "he (Lay) was having problems with his bond rating and he was worried about its impact on the energy sector."

Evans then called O'Neill but "they both agreed no action should be taken to intervene with their bond holders," Fleischer said.

Even before the latest revelations, the White House had confirmed Vice President Dick Cheney or his aides met with Enron officials six times last year to discuss energy issues while the White House was drawing up its energy plan.

However, Fleischer said the fact that Lay and others were talking to top officials isn't in and of itself a crime.

"I want to remind you that communication is not a wrongdoing. What took place here was, they received phone calls and took no action. The charge has been, did the government take any action? And the answer from these two officials is no," Fleischer said.

"I think it should surprise no one that people in the administration receive phone calls from people who are either in business or at unions. It happens everyday," Fleischer said.

However, some of Fleischer's assertions were, to be blunt, surprising.

To begin with, Fleischer said Thursday morning was the first time that O'Neill and Evans mentioned to Bush they had been in contact with Lay in the weeks just ahead of the company's bankruptcy.

In addition, Fleischer said no one in the administration briefed Bush about Enron's woes and he was hard pressed to say how the president learned the company had gone belly up late last year.

"He learned last fall. And I couldn't tell you if he learned as a result of the media accounts when everybody wrote that Enron had gone bankrupt or through any other mechanism. He learned last fall," Bush said.

However, this explanation appeared to be rather thin considering that Bush was fully informed and deeply involved in the financial bailout of the nation's airlines at the same time in part because thousands of jobs were at risk. Enron employed 20,000 workers.

Asked if, in hindsight, the president wished he had been better informed of the developments at Enron and among his top officials, Fleischer said, "No."

Adding to the White House's discomfort is the fact that Democrats on Capitol Hill are gearing up for

hearings on Enron. Fleischer warned them against going too far.

"It's appropriate to take a look into what led to the bankruptcy of Enron and whether or not anything was done wrong in the process of Enron going bankrupt. But if that's a politically charged, a politically motivated effort, then I think the American people are going to say that this is just another fishing expedition, another endless investigation, the type that they soured on over the last many years," Fleischer said.

Bush Warns Iran Not To Shelter Fleeing Al-Qaida

Following reports that Iran may be sheltering small numbers of fleeing al-Qaida or Taliban fighters and trying to control Afghanistan's western provinces, Bush bluntly warned Tehran it will be held accountable for any moves to terrorism or terrorists.

"Any nation that thwarts our ability to rout terror out where it exists will be held to account one way or the other," Bush said.

"We had some positive signals early - early in this war from - from the Iranians. We would hope that they would continue to be a positive force in helping us bring people to justice. We would hope, for example, they wouldn't allow al-Qaida murderers to hide in their country. We would hope that if that be the case, if someone tries to flee into Iran, that they would hand them over to us," Bush added,

Bush also told Tehran to keep its hands off of Afghanistan's fragile government and hinted the U.S. response could be sharp.

"If they, in any way, shape or form, try to destabilize the government, the coalition will be - will deal with them in, you know, in diplomatic ways, initially," Bush said.

For what its worth, Iran denied it was either undercutting the Kabul government or hiding terrorists.

"It has been our policy not to allow terrorist groups such as al-Qaida in Iran," Vice President Mohammad Ali Abtahi told The Associated Press.

The U.S. has long considered Iran a major backer of international terrorism.

Certainly, Abtahi's comments didn't sway Secretary of Defense Donald Rumsfeld.

"We know that (Afghanistan-Iran) has a porous border and we know people have moved back and forth throughout history. And we also know they've been moving back and forth in recent history," Rumsfeld said.

By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex Keto@Dowjones.com

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 4:50 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: Arthur Andersen Says It Destroyed Documents Related to Enron Account

January 10, 2002

Major Business News

Arthur Andersen Says It Destroyed Documents Related to Enron Account

By Judith Burns

Dow Jones Newswires

WASHINGTON -- Arthur Andersen LLP, already under fire for its audits of **Enron** Corp., said it has destroyed documents sought by federal law enforcement officials investigating the Enron debacle.

In a statement issued Thursday, Andersen said it notified the U.S. Justice Department and the Securities and Exchange Commission that individuals at the firm "disposed of a significant but undetermined amount" of documents relating to its work for Enron. The Houston energy company declared bankruptcy in December after announcing it had overstated four-and-a-half years worth of earnings.

The document destruction includes paper documents and e-mail correspondence.

Andersen said it has instructed employees to retain all existing documents "until further notice."

In addition, the Chicago-based Big Five accounting firm said it has asked former Sen. John Danforth (R., Mo.) to conduct "an immediate and comprehensive review" of the firm's policies on document handling and recommend improvements.

Andersen said destruction of Enron documents occurred "in recent months" by individual employees involved in auditing the energy company.

Michael Donovan, a Philadelphia attorney with Donovan Searles, LLC, which has filed a class-action lawsuit against Andersen on behalf of Enron shareholders, said document destruction by an audit firm is shocking.

"Auditors save everything," including all work papers for audit clients, Mr. Donovan commented.

Enron was one of Andersen's largest clients, generating \$25 million a year in audit fees and \$27 million of fees for consulting. Enron, a high-flying energy company which last year ranked No. 7 on the Fortune 500 list, announced big losses last October in off-balance-sheet partnerships run by former Chief Financial Officer Andrew Fastow. In early November, Enron acknowledged it had overstated earnings by \$569 million over a four-and-a-half year period and said investors could not rely on its past financial statements.

The SEC launched a formal investigation into Enron's accounting on Oct. 31.

Write to Judith Burns at judith.burns@dowjones.com1

From:

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Sent:

Thursday, January 10, 2002 2:54 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

Bloomberg: Attorney General Ashcroft Recuses Himself From Enron Probe

01/10 14:35

Attorney General Ashcroft Recuses Himself From Enron Probe

By Anna Marie Stolley

Washington, Jan. 10, (Bloomberg) -- U.S. Attorney General John Ashcroft said he won't participate in the Justice Department's investigation into Enron Corp.'s collapse due to his "relationship" with the company.

The announcement followed a call to step aside by U.S. Representative Henry Waxman. The California Democrat pointed to political contributions that Enron and its Chief Executive Officer Kenneth Lay made to Ashcroft's unsuccessful 2000 Senate campaign.

The Justice Department said yesterday that it is creating a task force in Washington to investigate the events that led to the biggest corporate bankruptcy.

Ashcroft announced today that he and his chief of staff, David Ayres, have recused themselves from anything to do with the Enron investigation "due to the totality of the circumstances of the relationship between Enron and the attorney general."

"The attorney general has not been involved in any aspect of initiating or conducting any investigation involving Enron," the Justice Department said in a statement.

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 2:49 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey,

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: Enron Justice Probe Not Seen Reaching Into Bankruptcy Crt

January 10, 2002

Enron Justice Probe Not Seen Reaching Into Bankruptcy Crt

By PHYLLIS PLITCH

of DOW JONES NEWSWIRES

NEW YORK -- Despite its apparent sweeping nature, the Justice Department's creation of a task force to investigate Enron Corp. (ENE) isn't expected to have much of an impact on ongoing bankruptcy proceedings.

Nor does the bankruptcy code offer a safe haven to senior executives who managed the company before its historic Chapter 11 filing in December, the largest on record.

Late Wednesday, Enron confirmed it's the target of a criminal investigation. The probe, which is expected to focus on possible accounting fraud, will be run by the Justice Department in coordination with U.S. Attorneys from across the country, including New York City, San Francisco and Houston, where Enron is headquartered.

Investors and employees lost billions in the collapse of Enron's core energy-trading operations amid a crisis of confidence among shareholders and trading partners, and the case has spawned a slew of shareholder lawsuits, as well as investigations by the Securities and Exchange Commission and the Department of Labor.

There have been past bankruptcy cases where stays have been issued or injunctions entered that protect current officers and directors from being sued during bankruptcy, if the court finds a civil lawsuit would interfere with the ability to help the company reorganize, said attorney Matthew Feldman.

"But that extension of an automatic stay or injunction would not apply under any circumstances that would protect an officer being pursued by state or federal authorities," said Feldman, a bankruptcy partner at Willkie Farr & Gallagher.

Similarly, the criminal probes are not seen undermining any continuing efforts by Enron and its creditors to dispose of the failed energy company's assets, he said.

Feldman represented another high profile bankruptcy filer that drew criminal scrutiny, Livent Inc., the Toronto-based theatrical production company that went down in flames in 1998. Though top executives, including prominent Livent founder Garth Drabinsky were criminally indicted by the U.S. Attorney's office, unloading assets of value went off without any issues related to the criminal investigation getting in the way. (Remaining in Canada, the executives themselves, however, have escaped the clutches of prosecutors here.)

Not to say that any potential criminal actions won't ultimately have an impact on plaintiffs pursuing civil cases against **Enron**, be they shareholders or other creditors. Any findings in a potential fraud complaint could help bolster future civil lawsuits, legal experts said.

"The criminal investigation as well as the Department of Labor and the SEC's investigation may develop facts that would support asserting certain causes of action against officers or other entities that dealt with Enron," said Jack Williams, the outgoing scholar-in-residence at the American Bankruptcy Institute in Alexandria, Va.

Further, a background of criminal activity that might emerge could help color any future efforts by creditors to appoint an examiner or a trustee to manage the company during bankruptcy, said Williams, who is returning to his former post teaching bankruptcy at Georgia State University College of law.

"It can change the tone of a bankruptcy case," said Williams. "The fact that you have a coordinated criminal investigation involving prosecutors from several different cities suggests a very serious investigation. It does raise the possibility of the ability of creditors and the like to successfully seek an examiner or an appointment of a trustee."

But the way things have been unfolding in bankruptcy court, that event is extremely unlikely, given that the company is not giving creditors reason to take that unusual step, said Feldman. The company appears to be trying to aggressively sell assets of value and retain critical employees and is being represented by highly respected lawyers and bankers, he said.

"If it wasn't moving in that direction, you might see creditors, as a leverage point, try to bring in an examiner, or in a dramatic scenario, a trustee," he said. "As long as it is moving in a direction people generally think it should be, they won't want to be distracted by a criminal investigation, any more than they already are."

-By Phyllis Plitch, Dow Jones Newswires, 201-938-2357; phyllis.plitch@dowiones.com

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 2:47 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

DJ: White House Says Enron Sought Help, Was Rebuffed

January 10, 2002

White House Says Enron Sought Help, Was Rebuffed

Dow Jones Newswires

WASHINGTON -- The Bush administration confirmed Thursday that Enron's (ENE) chief executive, Kenneth Lay, contacted two top officials last autumn and warned his company was headed toward bankruptcy, White House spokesman Ari Fleischer said.

However, Fleischer said that Lay's appeal for help from the government was rebuffed. In his appeal, Lay compared **Enron** to Long-Term Capital, a hedge fund that collapsed in the 1990s and sparked fears that its collapse could cause a shock to the financial system.

"What was told to me this morning was (Treasury) Secretary Paul O'Neill said that he had been contacted by Mr. Lay in the fall of last year and Mr. Lay brought to the secretary's attention his concerns about whether or not **Enron** would be able to meet its obligations. And he expressed his concern about the experience that Long Term Capital went through when Long Term Capital went bankrupt," Fleischer said.

"Secretary O'Neill then contacted (Treasury) Undersecretary (Peter) Fisher to ask him to evaluate whether the comparison was apt, and the Department of Treasury was advised that it was not apt as a result of Secretary Fisher's review," Fleischer said.

Interest in the administration's ties to **Enron** have been high because **Enron** was a major donor to President George W. Bush's political campaigns.

Democrats on Capitol Hill have begun hearings to see to if there was any impropriety in Enron's ties to the White House.

Further complicating the situation is that fact that many **Enron** employees held company stock in their 401K plans. **Enron** prevented the employees from selling their shares while the company collapsed, wiping out their savings in some cases.

Fleischer also said that Lay talked to Commerce Secretary Don Evans and expressed concerns about Enron's credit rating as the company experienced financial troubles.

Earlier in the day, Bush announced that two government working groups would begin reviewing the country's 401K regulations and corporate disclosure rules as a result of Enron's bankruptcy. On Wednesday, the Justice Department announced it would launch a criminal investigation into Enron's collapse, the largest bankruptcy in the nation's history.

However, Bush said he didn't meet with Lay personally and he said a full investigation into **Enron** was warranted and would take place.

Fleischer maintained that Bush was never involved in the discussions about whether to extend government assistance to **Enron**.

Asked if O'Neill or Evans approached Bush about the Enron matter, Fleischer said. "They did not."

Fleischer also said the two secretaries didn't tell Bush that **Enron** had approached them until Thursday morning. He called the fact that Enron's Lay approached the two secretaries nothing unusual.

"I think it should surprise no one that people in the administration receive phone calls from people who are either in business or at unions. It happens everyday. I mean, it's not uncommon for people to receive phone calls from business leaders across the country, from union officials across the country. That happens as a common occurrence has always taken place," Fleischer said.

"I want to remind you that, communication is not a wrongdoing. What took place here was, they received phone calls and took no action. The charge has been, did the government take any action? And the answer form these two officials is no," Fleischer said.

Fleischer warned Democrats against seeking to reap political hay from Enron's woes and its ties to the White House. He called such efforts a "fishing trip" and said it was the sort of investigation the country tired of in the 1990s.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex Keto@dowjones.com

From:

Carleton, Norman

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Thursday, January 10, 2002 1:27 PM

To:

Cetina, Jill; Sharer, James; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail);

Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne;

Whaley, Jean; Wiedman, Mark

Subject:

AP: Enron Chairman Gave Warning to Bush Officials on Company's Collapse

January 10, 2002

Enron Chairman Gave Warning to Bush Officials on Company's Collapse

By THE ASSOCIATED PRESS

Filed at 12:57 p.m. ET

WASHINGTON (AP) -- Enron Chairman Kenneth L. Lay reached out to two of President Bush's Cabinet officers when the energy company was collapsing, the White House disclosed Thursday as the Justice Department opened a criminal investigation of Enron's bankruptcy.

Bush, who received significant campaign contributions from Lay and other Enron executives, said he himself has never discussed Enron's financial problems with its embattled corporate chairman. The president said he last saw Lay in Texas at spring fund-raiser for former first lady Barbara Bush's literacy foundation.

Lay also was among a group of some 20 business leaders who came to the White House early in the Bush administration to discuss the state of the economy, Bush said.

Many Enron employees lost their life savings when the company filed for bankruptcy Dec. 2.

"What anybody's going to find out is that this administration will fully investigate issues such as the Enron bankruptcy, to make sure we can learn from the past and make sure workers are protected," Bush said.

But Lay did seek the ear of other top-level administration officials last fall.

According to White House press secretary Ari Fleischer, Lay telephoned Treasury Secretary Paul O'Neill amid Enron's collapse ``to advise him about his concern about the obligations of Enron and whether they would be able to meet those obligations."

Lay also told O'Neill that Enron "was heading to bankruptcy," Fleischer said.

O'Neill received calls from Lay on Oct. 28 and Nov. 8, said Treasury spokeswoman Michele Davis. It

was on Oct. 16 that Enron made its stunning disclosure of a \$638 million third-quarter loss.

In a separate phone call to Commerce Secretary Don Evans, Lay similarly worried that the company might have to default on its obligations. He brought to the secretary's attention ``that he was having problems with his bond rating and he was worried about its impact on the energy sector," Fleischer said.

After that conversation, Evans spoke to O'Neill ``and they both agreed no action should be taken to intervene with their bond holders," Fleischer said.

The spokesman had said Wednesday he did not know of anyone in the White House who discussed Enron's financial situation.

Fleischer also brushed aside talk of any conflict in the Justice Department investigation and said there was no reason to turn the probe over to a special counsel.

Lay gave \$25,000 to a leadership committee headed by then-senator and now Attorney General John Ashcroft, according to the Center for Public Integrity.

An attorney for Enron welcomed Ashcroft's inquiry, the latest in a series of governmental probes into the company's demise, saying the investigation would ``bring light to the facts."

"We want to get to the bottom of this too," said Robert Bennett, a Washington attorney representing the Houston-based company. "A lot of decent and honorable people work at Enron and we should wait until the facts are out."

Bush ordered a separate review Thursday of pension and corporate disclosure rules that could jeopardize workers' savings. "There has been a wave of bankruptcies that have caused many workers to lose their pensions and that is deeply troubling to me," Bush said.

The Justice Department is forming a national task force to look into the company's dealings. The group will be headed by lawyers at the department's criminal division and include prosecutors in Houston, San Francisco, New York and several other cities, said a Justice Department official, speaking on condition of anonymity.

The official declined to say when the investigation began. Enron faces civil investigations by the Labor Department and the Securities and Exchange Commission and subpoenas from congressional committees.

All are looking into the energy trading company's collapse, the largest bankruptcy filing in U.S. history.

The failure hit employees and investors hard. Workers were prohibited from selling company stock from their Enron-heavy 401(k) retirement accounts as the company's stock plummeted. Many lost their life's savings.

Enron executives cashed out more than \$1 billion in stock when it was near its peak.

Former Enron chief executive Jeffrey Skilling, who left the helm nearly two months before the company's swift descent, welcomes the investigation, said spokeswoman Judy Leon. Skilling has said he had no idea, despite Enron's falling stock values, that the company was on the brink of

failure.

Formed in 1985, Enron had 20,000 employees and was once the world's top buyer and seller of natural gas and the largest electricity marketer in the United States. It also marketed coal, pulp, paper, plastics, metals and fiber-optic bandwidth.

One likely focus of the Justice Department investigation is possible fraud based on Enron's heavy reliance on off-balance-sheet partnerships which took on Enron debt. The partnerships masked Enron's financial problems and left its credit ratings healthy so it could obtain the cash and credit crucial to running its trading business.

The Houston-based company went bankrupt after its credit collapsed and its main rival, Dynegy Inc., backed out of an \$8.4 billion buyout plan late last year.

Just a year ago, stock of Enron, the nation's largest buyer and seller of natural gas, traded at \$85 per share. Today it is less than \$1.

Lay has close ties to Bush and his father, the former president. Lay was a top contributor to the younger Bush's 2000 presidential campaign.

The company played a key role earlier this year when a White House task force met with business executives and other interests to fashion a national energy policy. The task force was headed by Vice President Dick Cheney.

Disputes are thus still breaking out in the market. But dealers in credit derivatives have lately been keen to make their products more reliable. When lawyers were called in by buyers and sellers of protection on Railtrack, the owner of Britain's rail network that was forced into administration last year, they quickly brought in the industry trade body, the International Swaps and Derivatives Association, to sort things out.

At issue was whether Railtrack's convertible bonds were covered by default protection. The association opined, in favour of protection buyers, that they were. It did much last year to improve its rules on contracts for credit derivatives. Its new "modified restructuring" rule clarifies the issue, keenly debated over the past two years, of whether debt restructuring, as opposed to actual default or bankruptcy, should count as a credit event. The trade body has also offered guidelines for what should happen to default swaps on companies that demerge or spin off units.

With these improvements, growth in the market for credit derivatives is likely to continue apace. It has almost doubled each year since 1998, to a total of nearly \$700 billion in value, according to the Bank for International Settlements. Credit protection has particular appeal at a time of high corporate default rates.

Commercial banks are continuing to shed corporate-credit risk using default swaps. But new entrantsinsurance companies and fund managers-are coming into the market to assume risk, as sellers of
protection. Last year, investors seeking attractive yields were eager to gain exposure to corporate credit
through "synthetic" collateralised debt obligations (CDOs), structured-finance vehicles made up using
credit-default swaps. Investors may not be quite so gung-ho in future. Enron, for example, was one of
the credits contained in many synthetic CDOs, and its collapse will have led to losses for investors. In
the world of credit derivatives, caveat emptor still applies.

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 12:22 PM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo. Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey.

Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject:

FT: Enron's collapse sparks government review

Enron's collapse sparks government review

By FT.com staff in New York, Peter Spiegel in Washington and Sheila McNulty in Houston Published: January 10 2002 02:15 | Last Updated: January 10 2002 17:00

gavel

President George W. Bush on Thursday called for a government review into the adequacy of current regulations governing corporate pension funds and disclosure in the wake of Enron's collapse, the largest corporate bankruptcy in US history.

Mr Bush also created a task force in which the treasury secretary and commerce secretary will analyse pension rules and recommend reforms so that employee savings will be better shielded from employer bankruptcies.

The Treasury department, Securities and Exchange Commission, Federal Reserve and the Commodity Futures Trading Commission will carry out the review of corporate disclosure rules in order to protect stockholders.

Mr Bush's move follows the US government's launch of a criminal probe into the bankruptcy of the energy trading giant. Enron's bankruptcy in December led to thousands of lay-offs and wiped out investors and the life savings of some of its employees, as a large part of employee retirement plans were invested in the company's own stock.

The criminal probe was welcomed by Enron's new Washington lawyer, who said it will help consolidate the various investigations currently under way.

The criminal inquiry, which will be headed by the Justice Department's Washington-based criminal division, will be run by a new task force being set up by the agency, which will include prosecutors in New York, San Francisco and Houston, where Enron is based.

Robert Bennett, the prominent Washington attorney who was recently retained by Enron to handle the sundry investigations into the company's collapse, said on Wednesday the new task force will centralise requests made of the company.

"It makes it a much more rational process to be dealing with a primary leader in the investigation," Mr Bennett said in an interview. "I wish there were no investigation, but if there were an investigation, this is the way to do it."

The Labor Department and the SEC have launched separate civil inquiries into the company's dealings, and the decision by the Justice Department to launch a full criminal inquiry comes after it has been debated within the agency for weeks.

Mr Bennett said Enron has set up its own independent investigation committee, headed by a former head of the SEC's enforcement division, and cautioned that the launch of a criminal investigation does not necessarily signal any wrongdoing.

"People should keep their powder dry and not rush to judgment here," he said. "Enron wants to get to the bottom of this as soon as possible."

Enron is also subject to four major congressional inquiries, and Mr Bennett said he hoped congressional leaders would consolidate their investigations as the Justice Department has.

In addition to the causes of Enron's collapse, a number of the congressional committees have indicated they will also examine the company's ties to the Bush administration. Kenneth Lay, Enron chief executive, is close to Mr Bush, and Enron and its executives donated \$114,000 to Mr Bush's presidential campaign.

Earlier this week, the White House disclosed that vice president Dick Cheney and his staff had met with Enron representatives six times last year, but never discussed the company's financial condition. Ari Fleischer, White House spokesman, said on Wednesday he was not aware of any other White House staffers discussing the matter with Enron.

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 12:14 PM

To:

Bair, Shella: Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject:

Bloomberg Column: Enron Broadband Trading Losses Grew as Company Touted Success

01/10 10:31

Enron Broadband Trading Losses Grew as Company Touted Success

By Loren Steffy

Houston, Jan. 10 (Bloomberg) -- Dixie Yeck landed Enron Corp.'s first contract to trade space on high-speed phone lines, a milestone in the company's plan to turn fiber-optic bandwidth into a commodity to be bought and sold like electricity and natural gas.

Her bosses told Yeck her December 1999 agreement with Global Crossing Ltd. was a step toward realizing Enron's goal of dominating a market that company executives projected would grow to \$500 billion in 2005 because of the explosion of the Internet.

"Enron wanted to be the biggest buyer and seller of bandwidth," said Yeck, 36, who was in charge of finding telecommunications companies in the midwestern U.S. that wanted to sell network capacity and businesses that wanted to buy it. "They got you so pumped up, you just had to believe them."

Yeck's dream faded in less than a year as Internet companies went out of business and those that remained had more fiber-optic network space than they needed. Yeck said many of her 1,500 co- workers at Enron Broadband Services had so little to do that they spent hours each day surfing the Internet.

"The whole market had started to dry up," Yeck said. "I knew EBS was going under."

Yeck said she listened in disbelief in January 2001 to an Internet broadcast in which Enron executives told investors the company's broadband business was booming. Chairman Kenneth Lay said the division had reached the "critical mass" it needed. Then-President Jeffrey Skilling touted "enormous growth prospects" for the business. The broadband division, he said in an interview two months later, was worth \$36 billion, or \$40 a share, at a time when Enron's stock traded at \$70.

"My experience did not match what was being presented," said Yeck, who quit her job in October, less than two months before Enron filed the largest Chapter 11 bankruptcy in U.S. history.

Suspect Profits

Even as market prices for bandwidth tumbled in 2000, Enron Broadband recorded gains on its income statement from equity investments in other companies, derivative instruments and sales of fiber-optic cable among Enron-affiliated partnerships. Gains from those sales accounted for 20 percent of the division's pretax profit last year.

"There's something not right about that," said Ron Banaszek, director of bandwidth trading for Tradition Financial Services, an over-the-counter commodities broker in Stamford, Connecticut. "Prices have been eroding. If there was that kind of money to be made, I think other (broadband) companies would be making a lot of money right now."

Surge of Losses

When Enron restated earnings for the past four and a half years in November, the extent of the financial distortions became clear. The broadband division's \$60 million year-end loss ballooned to \$357 million by the third quarter of 2001, and restructuring a derivative investment resulted in negative revenue of \$125 million, according to statements filed with the U.S. Securities and Exchange Commission.

"The broadband deal was the beginning of the end," said Ogan Kose, a crude-oil trader who was one of 4,500 Houston employees Enron fired in December. "Instead of writing it off, they continued to carry it."

Enron entered the 1990s as a Houston-based pipeline operator and transformed itself into the dominant trader of natural gas futures, controlling as much as 30 percent of the gas futures contracts traded on the New York Mercantile Exchange. The company repeated that success in markets for trading electricity and weather derivatives.

Skilling promised investors, including those at the meeting last January, that Enron would deliver 20 percent to 30 percent profit growth annually by applying the same strategy to new markets. Enron began trading in metals, lumber and broadband and set up companies such as New Power Holdings Corp. and Azurix Corp. to tap deregulated electricity markets and buy and sell water.

Toll of Failures

None of the ventures generated the profits that flowed from Enron's early trading businesses. By the third quarter of 2001, gas, power and weather trading generated \$717 million in pretax profit. Losses from other operations topped \$1.4 billion.

"We made millions, and they just kept putting it into the next business hoping it would be the next big thing," said Tom Donohoe, an Enron natural gas trader who was fired in December. "Azurix was a flop. Broadband was a flop. Any one of them we probably could've absorbed, but it was just one after the other."

For a while, Enron endured the losses by shifting debt and assets off its books using partnerships capitalized by the company's shares, which rose 87 percent last year. Many of the partnerships were set up by former Chief Financial Officer Andrew Fastow, who made \$30 million running them, according to SEC filings.

Chain Reaction

When Enron's shares began falling, the company became liable for off-balance-sheet debt. That set off a chain reaction that cut the company's credit rating, scared off customers and drove Enron's shares as low as 26 cents. The stock's decline wiped out the savings of thousands of employees who'd loaded their 401(k) retirement plans with Enron shares. The SEC, the Justice Department and Congress are investigating.

Lay, Skilling and Fastow declined interview requests. They are named as defendants in more than 40 lawsuits filed by shareholders and employees and are among Enron insiders who sold more than \$1 billion of company stock during the past three years.

Broadband Strategy

Enron set up its broadband unit as Internet growth was peaking and thousands of companies were creating retail Web sites, electronic exchanges and inventory management systems that needed to move data over high-speed lines. Enron planned to make a market in access to the lines, serving as a middleman between companies that wanted to sell transmission capacity and those that wanted to buy it.

Enron also began building a fiber-optic network, spending \$436 million in 2000 alone on 18,000 miles of cable that it planned to connect to transmission equipment and lease to users.

In its first contract, the one Yeck signed with Global Crossing, a telephone and data network operator, Enron agreed to buy bandwidth capable of moving data and streaming video between New York and Los Angeles. Enron planned to resell the bandwidth at a profit.

"This is 'Day One' of a potentially enormous market," Skilling said in a news release on Dec. 2, 1999. "The market structure for bandwidth is currently inefficient and expensive. We are demonstrating that bandwidth can be traded under flexible, market-based contract structures."

Enron began transferring hundreds of employees from other divisions, eventually assigning 1,500 to its broadband trading unit. That was more than three times the number of employees Williams Communications Group Inc. hired for its broadband business, which had 33,000 miles of fiber, almost twice as much as Enron.

Spending Plans

At a Houston investor conference in September 2000, Lay said Enron had completed 90 bandwidth trades. He announced a plan to spend as much as \$1.95 billion to beef up Enron's fiber network and trading operations in two to three years.

"When tech was in favor, all of Wall Street was pushing them to increase their exposure in broadband," said Tim Ghriskey, manager of Ghriskey Capital Partners. As a fund manager for Dreyfus Corp. in late 2000, Ghriskey sold 1.55 million Enron shares.

Trading bandwidth proved more difficult than trading natural gas. For starters, Enron faced stiffer competition. When the company began trading gas futures in 1991, it took years for rivals to follow its lead.

Action by Rivals

Two months after Enron completed its first bandwidth trade, Williams Communications announced it was forming a unit to trade broadband. By the end of 2000, rivals such as Koch Industries Inc. and Dynegy Inc. had set up units to trade bandwidth.

"When Enron revolutionized the gas industry, they were ahead of the game and they made a lot of money," said Kyle Vann, chief executive of Entergy-Koch LP, a joint venture between Koch and New Orleans utility Entergy Corp. "Then they took it to the power industry, and they made a lot of money. With bandwidth, once Enron went that way, there were a lot of other people who did, too."

Even as more companies began selling bandwidth, consumers and businesses began ordering fewer telecommunications services. Industry experts estimate that about 20 percent of the world's fiber is being used.

"You have such an incredible surplus of capacity, that there's really not a lot of trading leverage there," Vann said. "It's just a big old huge excess."

In March, Enron lost one of its biggest customers. Blockbuster Inc., the world's largest video-store chain, canceled a 20year contract to deliver movies-on-demand over Enron's network. Blockbuster spokeswoman Karen Raskopf said at the time that the company "decided there were plenty of other carriers out there that were more sophisticated technically."

New Counting Method

With contracts drying up, Enron developed a new method for measuring trading volume. At the January investor conference, Lay said Enron completed 300 "intermediation transactions" the previous year. He never defined the term, and Yeck had never heard it before. It was a measure that broke broadband contracts down to their smallest components to create a larger number, Yeck said.

"It made it look like a lot more was happening than there was," she said. "It's like a personal computer maker saying 'we sold a million bytes." That's not much, but it sounds like it -- a million, wow."

Banaszek of Traditional Financial Services and other broadband traders and consultants said they aren't familiar with the term, either.

"It was always very difficult with these guys to get any specifics in terms of their businesses," said Ghriskey, the former Dreyfus fund manager. "That's one of the reasons we sold all our stock."

Few Broadband Trades

At a Houston court hearing on Dec. 7, William Lerach, an attorney for Amalgamated Bank, an Enron shareholder that wants to freeze profits Enron executives made from stock sales, said his investigation found Enron's broadband unit never did more than 20 "legitimate" transactions.

Most of Enron's broadband trades were so-called daisy chain deals, with related affiliates, Lerach said.

Enron spokesman Mark Palmer said he has no way to find out how many contracts the broadband division had. He said

he thinks intermediation transactions represented "deals where we were either the buyer or seller of some type of bandwidth commitment in the future."

Yeck and Kose said they knew of Enron buying and selling broadband contracts at no profit to increase trading volume. Palmer dismissed such claims as the "'talk of disgruntled former employees."

Sales to Partnerships

Enron's financial statements show the division was in decline since late 2000. Revenue of \$162 million in the third quarter of that year slipped to \$83 million by the first quarter of 2001 and \$16 million by the second quarter. At the same time, pretax losses rose from \$20 million in the third quarter of 2000 to \$102 million by the second quarter of 2001.

Much of the revenue came from sources other than trading. Enron derived some of it from investments in companies such as Rhythms Netconnections Inc., a provider of local high-speed networks whose shares rose more than fourfold in the month after it went public in April 1999. The company filed for bankruptcy in August.

Enron generated about 20 percent of the \$318 million gross profit reported for 2000 from selling a block of fiber to partnerships controlled by Fastow, the former CFO.

Recording a Gain

In June 2000, the partnership, known as LJM2, paid \$100 million -- \$30 million in cash and \$70 million in an interestbearing note -- for some of Enron's fiber, according to SEC filings. Enron booked a \$67 million pretax profit from the sale and received \$20 million for operating, maintaining and marketing the fiber.

Enron's profit from the transaction depended on LJM2's ability to find a buyer willing to pay a higher price for the fiber. In December 2000, it found two. LJM2 sold part of the fiber to unnamed "industry participants" for \$40 million and set up a "special purpose entity" that bought the rest of the fiber for \$113 million, according to SEC filings.

In six months' time, the value of the fiber, based on Enron's accounting, rose by \$53 million. Banaszek said even the initial \$67 million profit seems unlikely because fiber prices fell during most of 2000.

Yeck decided to quit in October, after being transferred to the trading desk. She said "there was nothing to do" and the staff battled over trades in the hope of winning performance bonuses that made up most of their compensation.

"It was like a piece of meat in a pack of wolves," Yeck said. "They would claw and scratch and do whatever it took to get it."

Broadband Fails

Many of Enron's competitors had already given up on broadband. Koch, which set up a bandwidth trading business in September 2000 under its Koch Investment Group unit, had three employees devoted to broadband. After signing one contract. Koch stopped trading in the market because of lack of demand.

The amount that broadband cost Enron became clear in November, after the company restated earnings to reduce them by \$586 million over the past 4 1/2 years.

The unit took \$277 million in charges for restructuring, soured equity investments, writing down excess network equipment and adjusting the value of a derivative investment. Enron didn't provide details on the derivative, which resulted in negative revenue of \$125 million for the quarter, according to statements filed with the SEC.

With bankruptcy looming, Enron said it would sell its broadband operation, along with other assets. During a conference call on Nov. 14 to discuss the sale, Skilling's replacement, Greg Whalley, told analysts what Dixie Yeck had suspected a year earlier: "The return for these investments and businesses is dismal."

From: Carleton, Norman

Thursday, January 10, 2002 12:07 PM Sent:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, To:

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject: Bloomberg: Bush Task Force to Study Disclosure Rules After Enron

01/10 11:16

Bush Task Force to Study Disclosure Rules After Enron (Update2)

By David Morris

Washington, Jan. 10 (Bloomberg) -- President George W. Bush said he ordered Treasury Secretary Paul O'Neill and other officials to review the adequacy of corporate disclosure rules after Enron Corp.'s bankruptcy.

"In light of the most recent bankruptcy, Enron, there needs to be a full review of disclosure rules to make sure the American stockholder, or any stockholder, is protected," Bush said.

The review marks Bush's first official public act in response to Enron's financial collapse. Multiple investigations of Houston- based Enron, including a criminal probe by the Justice Department, carry political risks for the president who was close to Enron Chairman Kenneth Lay, a large contributor to Bush's political campaigns.

The White House released a letter Tuesday saying Enron representatives met with Vice President Dick Cheney's energy task force six times in seven months last year to talk about energy policy.

Bush, the former Texas governor, said he hasn't talked with Lay about Enron's financial troubles and most recently saw the Enron chief last spring at a literacy fundraiser held by the president's mother, former First Lady Barbara Bush.

Nest Eggs

The disclosure-rule task force, including O'Neill and Commerce Secretary Donald Evans, should look into ways to protect pensioners from losing their nest eggs if their employer goes out of business, Bush said.

Enron, which was the biggest energy trader, said on Nov. 8 that profits had been inflated by \$585 million since 1997 because of accounting errors. After the restatement, Enron shares plunged about 99 percent, to as little as 25 cents, before the company on Dec. 2 filed the biggest U.S. bankruptcy case ever.

Enron's restatement involved transactions with partnerships and affiliates, some of which were set up by Enron officials. The Securities and Exchange Commission is investigating whether Enron adequately disclosed information about partnerships and affiliates, and whether its auditor, Arthur Andersen, acted properly in its reviews of Enron's books.

The Justice Department yesterday said it had established a task force of prosecutors to conduct a criminal investigation of the events surrounding Enron's collapse. Six congressional committees are conducting investigations of Enron's fall and the impact on 401(k) retirement accounts, which held much of employees' retirement savings in Enron stock.

Former CEO

Some of the investigative focus is on what former Enron Chief Executive Officer Jeffrey Skilling knew about partnerships that allowed Enron to shift debt off the company books. Skilling has denied having detailed knowledge of the partnerships.

Skilling's spokeswoman Judy Leon said today the former Enron CEO would cooperate fully with the Justice Department probe and "welcomes any inquiry aimed at clearing the air and finding out what really happened at Enron."

Leon said Skilling already had cooperated with inquiries by the SEC and Congress. "When the facts are in, we expect he

will be vindicated," Leon said.

SEC Chairman Harvey Pitt, who has been in office about five months, already has promised a comprehensive review of rules about corporate disclosures of financial information. Pitt has said he wants to establish a system where companies make more-frequent disclosures to investors and describe more clearly important factors for their business prospects.

Enron stock, which traded for as much \$90.75 in August 2000, fell 10 cents to 69 cents in late morning trading.

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 11:57 AM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared: Hammer, Viva: Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject:

AP: Bush Orders Treasury To Eye Pension, 401K Rules - Sources

January 10, 2002

Bush Orders Treasury To Eye Pension, 401K Rules - Sources

WASHINGTON (AP)—U.S. President George W. Bush, in a follow-up to the criminal investigation of Enron Corp. (ENE), has ordered the **Treasury** Department to review rules regulating company pension and 401(k) plans, The Associated Press has learned.

Administration sources, speaking on condition of anonymity, said Bush would announce the action Thursday in the Oval Office, in part to inoculate himself politically from the bankruptcy of the Texasbased energy company that has ties to Bush and administration officials.

The Justice Department announced Wednesday it has begun a criminal investigation of the bankrupt energy company, whose collapse caused many employees to lose their life's savings.

The Justice Department is forming a national task force to look into the company's dealings. The group will be headed by lawyers at the department's criminal division and include prosecutors in Houston, San Francisco, New York and several other cities, said a Justice Department official, speaking on condition of anonymity.

As a follow-up, **Treasury** Secretary Paul O'Neill will head a review of laws and regulations to determine if they can be tightened to protect worker pension plans. A senior official involved in discussions on the issue said the Justice Department will determine whether Enron broke any laws and the **Treasury** Department will study whether Enron's conduct, although potentially legal, exposed loopholes in the system.

Enron's chairman and chief executive, Kenneth L. Lay, is a political ally of Bush's. He and other Enron officials met six times with Vice President Dick Cheney or his aides last year, before and after the release of the administration's energy plan.

Lay and his company have been leading contributors to Bush as well as to a long list of Democratic and Republican candidates.

The Center for Public Integrity, a nonpartisan watchdog agency in Washington, says Enron's executives contributed nearly \$800,000 to Bush, members of Congress and the two national political parties from 1999 to 2001.

A senior Bush adviser said the president wants to protect workers' pensions. His political team, the adviser said, is worried that the administration could face intense criticism for its association with Lay

and Enron as hearings heat up on Capitol Hill.

From:

Carleton, Norman

Sent:

Thursday, January 10, 2002 11:55 AM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject:

DJ: Bush: Worried By Lost Pensions In Bankruptcies

January 10, 2002

Bush: Worried By Lost Pensions In Bankruptcies

WASHINGTON -- President George W. Bush said Thursday that he wants to see a thorough investigation into the sudden collapse of Enron (ENE) and has ordered a review of the U.S. laws governing pensions.

On other matters, Bush also warned Iran not to thwart U.S. efforts in the war on terrorism and he specifically warned Tehran not to harbor "al-Qaida murderers."

Speaking in a hastily arranged event in the Oval Office, the president made his comments as the political heat mounted over Enron's collapse. The company and its head, Kenneth Lay, have a record of making large political contributions to Bush. Bush acknowledged this by calling Lay "a supporter"

Enron has also backed Democratic candidates.

Flanked by some of his top economic advisers, Bush said, "One of the things that we are deeply concerned about is that there has been a wave of bankruptcies that have caused workers to lose their pensions and that is deeply troubling to me."

"So I have asked the secretary of treasury, secretary of labor, secretary of commerce to convene a working group to analyze pension rules and regulations to look into the effects of the current law on hard-working Americans," Bush said.

Specifically, Bush said the group will look at ways to prevent workers from losing their life savings if their companies go belly up.

On top of this, Bush said he was asking the **Treasury**, the Federal Reserve, the Securities and Exchange Commission and the Commodities Futures and Trading Commission to convene a working group look at corporate disclosure rules and regulations.

Bush said he was ordering these actions "in light of the most recent bankruptcy, Enron."

"There needs to be a full review" of the events at Enron, Bush added.

Bush said he was particulary disturbed by reports that workers at Enron who held Enron stock in

1

their 401K plans were prevented from selling their shares as the company collapsed.

White House spokesman Ari Fleischer called the collapse of Enron a "wake-up call."

Bush said the two working groups would complement the criminal investigation into Enron's dealings that have been started by the Justice Department.

Bush said he hadn't met with Enron's Lay personally but Lay did come to the White House early in Bush's term as part of a delegation of businessmen who discussed the economy. Bush said former Texas Governor Ann Richards, a Democrat, named Lay the head of Texas's Governor's Business Council and Bush allowed him to stay on in that position.

Despite the political backing Lay gave to Bush, the president said he wanted to see the government "fully investigate issues such as the Enron bankruptcy."

On Iran, Bush reacted to reports that Iran may be sheltering small groups of al-Qaida fighters in Afghanistan's lawless western provinces with a warning.

"First of all, Iran must be a contributor in the war on terror," Bush said.

He vowed once again to uphold his doctrine "either you are with us or against us."

"Any nation that thwarts our ability to fight terror will be held to account one way or another. We had some positive signals early in our war on terror. We would hope that they would continue to be a positive force in helping us bring people to justice. We would hope, for example, they wouldn't allow al-Qaida murderers to hide in their country. We would hope that if that would be the case, if someone tries to flee into Iran, they would hand them over to us," Bush said.

Bush also warned Iran against trying to undermine the authority of the newly formed Afghan government in Kabul and urged Tehran to cooperate with Kabul.

"If they try in any way shape or form, try to destabilize the government, the coalition will deal with them, you know, in diplomatic ways, initially," Bush said.

Bush expressed the view that a stable Afghanistan was in Tehran's interests in any case.

On a related issue, Bush said that he suspected a shipload of weapons that was intercepted by Israeli commandos likely had been bound for the Palestinian Authority. Bush said it was time for Palestinian leader Yasser Arafat to prove he is a man of peace and to renounce terrorism once and for all

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex Keto@dowjones.com

From:

Sharer, James

Sent:

Wednesday, January 09, 2002 8:24 AM

To:

_DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman;

Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea

Subject: Financial Markets Morning Report 1/9/02

-Global equity markets were mixed. Cisco and Oracle indicate "the worst is over" in the tech sector, expect gains in the second quarter.

-The yen firmed against the major currencies overnight as Japanese and South Korean officials expressed some discomfort with the recent swift depreciation in the yen.

FX: The yen retraced to Y 132.30 after falling to a low of Y133.37, which prompted Japanese officials to express discomfort with the speed of the yen's recent depreciation. Government spokesman Fukada acknowledged that the yen's recent decline had been "a bit rapid" but "this is a level which is manageable." However, earlier in the Tokyo session, the MOF's Kuroda stated that the country's forex policy "remains unchanged despite the yen's rapid decline. South Korean officials continued to complain about the weaker yen. The dollar was little changed against the euro.

Japan: Japan's leading diffusion index rose to 25 in November from a zero reading in October, while November household spending was up 0.9%. The Nikkei 225 index and the TOPIX index were down 0.3% and 0.7% as bank stocks weakened further. The TOPIX bank index fell 1.8%, JGB yields were unchanged to down 2 bps. The JGB 10-year auction was well bid, with a coupon of 1.4% and the highest coverage ratio since 1989 at 11.35 times.

Emerging Asia: Emerging Asian stock markets were mixed. The Hang Seng and Singapore indexes were off 2.3% and 1.1%. The Taiwan and Kospi indexes were up 1.0% and 2.3%, aided by strength in semiconductor stocks. Hynix Semiconductor rose 15.0%, bolstered by talk of an offer from Micron Technology for the South Korean chipmaker.

Europe: German unemployment rose a smaller-than-expected 6,000 in December. The Euro area business climate index fell to -1.23 in December, its lowest level since 1996. Euro area 3Q01 labor costs rose a larger than expected 3.3%. The BOE policy committee began a two-day series of meetings. European stock bourses were mostly lower. The FTSE underperformed, pressured by declines in retail store and oil issues. HSBC was downgraded by an analysts, citing exposure to Enron and Argentina. German bund yields were up 1 to 6 bps on strong Euro area economic data. U.K. gilt yields were higher by 4 to 10 basis points.

Turkey: Turkey's National 100 index was down 3.1% to 14,421 on some profit-taking. The lira weakened 0.3%. The Turkish EMBI+ sub-index spread narrowed 6 bps to 660 bps, while the overall EMBI+ spread narrowed 3 bps to 700 bps.

Latin America: The Argentine EMBI+ sub-index spread fell 4 bps to 4316 bps, while Brazil's EMBI+ sub-index rose 3 bps to 835 bps.

Commodities: Brent crude oil is currently down \$0.50 to \$20.52 a barrel following news of a build in both crude oil and distillate inventories.

U.S. Assets Overnight

Treasury coupon prices are currently down 1/8 to 1/4 point in light trading. There are no major U.S. economic statistics scheduled for release today. Treasury will auction at 1 PM \$6.0 billion 10-year inflation-indexed notes. The Dow, S&P 500 and Nasdag index futures are indicating no clear direction at the New York open.

Today's Events:	Actual	Consensus Expectation	Previous Period
JPN Prelim. Leading Diffusion index, Nov.	25	40.1	0 (was 16.7)
JPN Household Spending, Nov.	+0.9% y/y	+0.1% y/y	+0.4% y/y
GER Unemployment, Dec.	+6,000	+20,000	+17,000
EUR 3Q01 Labor Costs	+3.3%	+2.8%	+2.7% (was +2.8%)
EUR Business Climate Index, Dec.	-1.23	-1.17	-1.20 (was -1.18)



From: Carleton, Norman

Sent: Tuesday, January 08, 2002 4:56 PM

To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross,

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject: FT Article on Wendy Gramm, the CFTC, and Enron

COMPANIES & FINANCE INTERNATIONAL: Appointment may be probed

Financial Times; Jan 7, 2002 By NANCY DUNNE

Republican Texas Senator Phil Gramm and his wife, Wendy, former chairman of the Commodity Futures Trading Commission, have both been strong proponents of deregulation.

Before leaving her CFTC office in 1992, Mrs Gramm kick-started a rule-making process at the behest of various energy companies and Wall Street banks, which exempted energy swaps from government oversight.

But it was not instituted until after she left the post and her subsequent appointment to a seat on Enron's board a few months later is expected to come under scrutiny from one or more of the Senate committees investigating Enron's downfall.

At the time of the CFTC rule-making, Enron was a strong financial backer of Mrs Gramm's husband. Between 1996 and 2002, the company's employees, officials and political action committees contributed Dollars 233,000 to the senator's campaign war chest, according to the Center for Responsive Politics.

This included Dollars 22,000 given during the current Congress, although the senator is not running for re-election.

William Albrecht, who became acting CFTC chairman after Mrs Gramm's departure, says it was he who ultimately instituted the rule. Now an economics professor in Iowa, Mr Albrecht said the Commission had been directed by Congress to exempt certain energy derivatives from regulation.

"Everyone was on board for this," he said. "We had dozens of meetings. If Enron is trading derivatives with Dynegy, they don't need us in there watching it."

Deregulation, however, had its opponents, and they flourished for a while during the Clinton years. Former Congressman Glen English was chairman of the subcommittee with jurisdiction over the CFTC. He saw no difference between derivatives and futures traded on regulated exchanges.

"Regulation is not just for the traders but for the impact (of not having regulation) on the economy," he said. "It was the responsibility of the CFTC to deal with derivatives."

Brooksley Born, ex-president Bill Clinton's first appointee as CFTC chairwoman, was opposed to deregulation. But her ideas were anathema to the Republican Congress of the time, which threatened to fold the agency into the Securities and Exchange Commission, according to a former CFTC official.

In 1993, Mrs Gramm was offered a position on the Enron board. She became a member of the company's audit committee. Mrs Gramm declined to return the FT's calls but it is common for retiring regulators to move over to industries they oversaw.

She was paid Dollars 22,000 a year for the first three years. Her annual salary grew to Dollars 50,000. Between 1993 and 2001, she earned Dollars 346,000 plus Dollars 176,000 for attendance fees, according to a recent report from Public Citizen, a liberal advocacy group.

She also received stocks and dividends worth between Dollars 915,317 and Dollars 1.85m over the period. Mr Gramm's tax returns last year listed his wife with assets of Dollars 250,001-Dollars 500,000 in an Enron Deferred Compensation Fidelity Balanced fund.

Mr Gramm played a key role in getting the Commodity Futures Modernisation Act passed in December 2000. The act, which deregulated all financial derivatives and relaxed oversight of commodity exchanges, had been languishing in the Senate.

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From: Carleton, Norman

Sent: Thursday, January 10, 2002 12:24 PM

To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo,

Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Wiedman, Mark

Subject: FT: Cheney under fresh pressure over Enron

Cheney under fresh pressure over Enron

By Peter Spiegel in Washington

Published: January 9 2002 19:31 | Last Updated: January 10 2002 08:14

Critics of the Bush administration's handling of its energy policy continued to push on Wednesday for more information on its contacts with Enron, the failed energy company. They say that Vice-President Dick Cheney's disclosure of meetings between his office and company officials did not sufficiently explain the breadth of the administration's activities.

The push for further disclosures is coming from both ends of the political spectrum, including the leftleaning Natural Resources Defence Fund (NRDF) and the conservative watchdog group Judicial Watch, both of which have filed suit against the administration seeking documents related to the White House's energy task force, which Mr Cheney chaired.

"The fact the vice-president can say what wasn't discussed is not sufficient, it's not the way the government works," said Tom Fitton, president of Judicial Watch, which was one of the most aggressive critics of the Clinton administration. "Enron's intent may have been other than policy. It may have been something to do with their finances."

In a January 3 letter to the Democrat Henry Waxman, a senior member of the House energy and commerce committee, Mr Cheney's counsel said the vice-president and his staff had six meetings with Enron representatives last year. The letter said Enron's financial difficulties were not raised in the sessions, but did not give any other specifics, other than to say "energy policy matters" were discussed.

In his own letter to the vice-president, Mr Waxman said the disclosure raised "additional questions" about Enron's influence over White House energy policies and potential revelations it may have made to the administration about its internal operations.

He asked the vice-president to provide additional information, including documents used during the meetings and the names of those attending the sessions. He also asked for information on contacts with any other White House officials not part of the Cheney task force.

"We're being stonewalled to the point they're ready to go to court," said John Walke, an attorney with the NRDF. "The letter raises the obvious question of, what are they afraid of?"

The White House on Wednesday did not rule out providing additional information, but remained circumspect, saying only that the vice-president's office had received Mr Waxman's letter and was reviewing it. Additional pressure may soon come from the influential General Accounting Office, Congress's auditing agency, which is also seeking records from the Cheney task force. After backing off the threat of a lawsuit in the wake of the September 11 terrorist attacks, David Walker, the GAO chief, said last month he was reconsidering his options in light of "several recent developments."

Although Mr Walker did not detail what developments have prompted his new review, they are believed to include Enron's collapse and US success in the Afghan campaign.



October 8, 1999

Kenneth L. Lay Chairmen and Chief Executive Officer

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fex (713) 853-6313
MayGewon.com

The Honorable Lawrence H. Summers Secretary of the Treasury U.S. Department of Treasury 1500 Pennsylvania Avenue, NW Room 3330 Washington, D.C. 20220

Dear Larry:

I apologize that we have not been able to connect by telephone over the last 2 or 3 days. It appears that our respective schedules are totally out of sync.

The reason I was calling has to do with a matter that just recently came to my attention. Apparently at a conference of the <u>National Economic Research Association</u> held the week of July 5th this year, Treasury Department assistant general counsel John Yeutter made some comments concerning over-the-counter (OTC) derivatives regulation and Enron which were troubling. He apparently stated that the President's Working Group on Financial Markets in its pending study on Hedge Funds and Derivatives considered OTC derivatives regulation an 'open Issue', and it may recommend regulation of 'otherwise unregulated entitles, such as Enron'.

As you would expect, we are troubled by being singled out, but even more troubled by the notion that financial regulators may be considering any regulation of OTC dealers, particularly in the energy field, where we believe derivatives are truly customer based risk particularly in the energy field, where we believe derivatives are truly customer based risk management tools. Enron believes there is no need for any additional regulation of OTC derivatives dealers in as much as the OTC derivatives markets are functioning very smoothly today and, based on any information we have, there have been no problems in the energy today and, based on any information we have, there have been no problems in the energy derivatives market that warrant regulation. In fact, we believe that derivative products provide a useful and important risk management tool for our customers and the customers of many other dealers in the energy industry and many other business areas.

Larry, hopefully the comments made by John Yeutter were just a misunderstanding. However, if there is any serious thought of imposing regulation of OTC dealers, we would certainly like to have an opportunity to make our case as to why we think this is not warranted. I would very much appreciate receiving a call or note from you if in fact there is any reason that we should be concerned about this occurring.

I spent some time with Bob Ruben in Shanghal last week and he appears to be doing very well. I must say he looked more relaxed than I have seen him in years.

Warm regards,

Natural and Electricity Endlace noceihilities



Facsimile Cover Sheet

To: The Honorable Lawrence H.

Summers

Company: U.S. Department of Treasury

Phone: 202/622-1100 Fax: 202/622-0073

From: Rosalee Fleming for

Kenneth L. Lay

Company: Enron Corp. Phone: 713/853-6088

Fax: 713/853-5313

Date: 10/08/99

Pages including this

cover page: 2

Comments:



October 8, 1999

Kenneth L. Lay Chairman and Chief Essentive Officer

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Warm regards.

Natural and Electricity Endloce nocelhilities

Gross, Jared

From: Stewart, Lawranne [Lawranne.Stewart@mail.house.gov]

Sent: Thursday, December 06, 2001 5:06 PM

To: Jared.Gross@do.treas.gov

Subject: RE: DJ: Vast Dealings With Enron Helped Diversify Risk, Some Say

Jared - thank you - these were very helpful. I got a chance to speak briefly with Peter about impact on the derivatives markets, and this provides a little more color.

From: Jared.Gross@do.treas.gov[SMTP:Jared.Gross@do.treas.gov]

Sent: Thursday, December 06, 2001 4:56 PM

To: Stewart, Lawranne

Subject: FW: DJ: Vast Dealings With Enron Helped Diversify Risk, Some Say

- > ----Original Message-----
- > From: Carleton, Norman
- > Sent: Thursday, December 06, 2001 4:29 PM
- To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew;
- Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail);
- > Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian;
- Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
- > Subject: DJ: Vast Dealings With Enron Helped Diversify Risk, Some Say
- > December 6, 2001
- >
- > Vast Dealings With Enron Helped Diversify Risk, Some Say
- > By JOE NIEDZIELSKI
- > Of DOW JONES NEWSWIRES
- > NEW YORK -- Enron Corp.'s (ENE) financial dealings rippled throughout
- > global financial markets, but in some ways, the spread of risk among
- > hundreds of institutions has softened the blow from the biggest bankruptcy
- in U.S. history.
- > At a time when many companies are putting their house in order with
- > regards to Enron for example, by disclosing bond holdings or closing out
- > derivatives contracts Standard & Poor's noted Thursday that credit
- > exposure to Enron isn't concentrated in any one institution, country, or
- > even industry.
- > Total credit exposure to Enron likely exceeds the \$33 billion on Enron
- > Corp.'s balance sheet, but those exposures come in many forms, not all of
- > which are equally risky, S&P said. "The good news is that while some of
- > the exposures may be material, they do not appear, at least on the basis
- > of initial reports, to be life threatening to any institution," the rating
- > agency said.
- > The tone of S&P's remarks Thursday echoes that of some reports this week
- > from Wall Street fixed-income firms. Merrill Lynch said almost every
- > global financial entity has derivative contracts outstanding with Enron.
- > "This is actually a positive as risk to Enron is spread over a large
- > number of counterparties," Merrill said.

- > But what's been difficult for agencies like S&P to get at, is the full
- picture of Enron's exposure throughout financial markets, such as
- > derivatives. Enron's liabilities to counterparties, or the amount it owed
- > to third parties under derivatives contracts, was around \$18.7 billion as
- > of Sept. 30, according to Swaps Monitor, the New York firm that tracks
- > over-the-counter derivatives.
- > A lot of Enron's derivatives counterparties who didn't want to keep the
- > full share of their Enron exposure on their trading books may have
- > offloaded some of the risk in the credit derivatives market, or through
- > surety bonds issued by insurers. That in turn created more financial
- > contracts or synthetic bonds that use credit derivatives exposed to an
- > Enron failure.
- > "We, by no means, have gathered the complete picture of who's holding the
- > bag," S&P's Tanya Azarchs told Dow Jones Newswires.
- > Last week, S&P noted about a \$3.3 billion notional, or face value, of
- > Enron credit exposure in the synthetic collateralized debt obligations, or
- > CDOs, that it rates. In these deals, the credit risk of a portfolio of
- > obligors is transferred to a swap counterparty and to investors who buy
- > notes ranging from high credit quality to slightly speculative. Enron also
- > was a swap counterparty on some \$3 billion face value worth of deals rated > by S&P.
- > And Enron was among the more actively-traded names in the single name
- > credit default swap market, insurance-like contracts between two
- > counterparties that protect against defaults and other credit events like
- > restructuring. Estimates from CreditSights in New York put the
- > counterparty exposure to Enron in the default swap market in the range of
- > \$8 billion to \$10 billion.
- > But Enron's credit exposure isn't concentrated among financial
- > institutions like it may have been at one time, S&P said Thursday.
- > The bonds are held mostly by insurance companies, pension and mutual
- > funds, and CDO structures, which, in turn, may be held by insurance and
- > banking organizations, S&P said.
- > Among banks, the highest exposures in dollar terms are to be found at
- Enron's lead banks, J.P. Morgan Chase & Co. (JPM) and Citigroup Inc. (C).
- > S&P said. But much of that exposure is secured.
- > As of Thursday, the estimated direct exposure of U.S. insurers' asset
- > portfolios to securities issued by Enron and its affiliates is more than
- > \$3.5 billion, which is not likely in itself to "negatively affect" the
- > ratings of those insurers, S&P added.
- > The derivatives exposures present the more "complicated and incomplete"
- > picture. But Enron, prior to its demise, was a triple-B-rated
- > counterparty, meaning that institutions on the other side required higher
- > levels of collateral.
- > And S&P added that those with Enron exposure often sought to protect
- > themselves by obtaining credit protection on the Enron name in the form of
- > credit default swaps, letters of credit, or bank guarantees. This
- > transferred the risk beyond the natural counterparties on derivative
- > transactions, which are otherwise a relatively small group of companies.
- > "The mechanism of diversifying risk, by laying it off in a variety of
- > markets, worked," Azarchs said.
- -By Joe Niedzielski, Dow Jones Newswires, 201-938-2039;

From:

Gross, Jared

Sent: To:

Thursday, December 06, 2001 4:56 PM

"lawranne.stewart@mail.house.gov"

Subject:

FW: DJ: Vast Dealings With Enron Helped Diversify Risk, Some Say

····-Original Message--

From: Carleton, Norman

Sent:

Thursday, December 06, 2001 4:29 PM

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-

mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject: D3: Vast Dealings With Enron Helped Diversify Risk, Some Say

December 6, 2001

Vast Dealings With Enron Helped Diversify Risk, Some Say

By JOE NIEDZIELSKI

Of DOW JONES NEWSWIRES

NEW YORK -- Enron Corp.'s (ENE) financial dealings rippled throughout global financial markets, but in some ways, the spread of risk among hundreds of institutions has softened the blow from the biggest bankruptcy in U.S. history.

At a time when many companies are putting their house in order with regards to Enron - for example, by disclosing bond holdings or closing out derivatives contracts - Standard & Poor's noted Thursday that credit exposure to Enron isn't concentrated in any one institution, country, or even industry.

Total credit exposure to Enron likely exceeds the \$33 billion on Enron Corp.'s balance sheet, but those exposures come in many forms, not all of which are equally risky, S&P said. "The good news is that while some of the exposures may be material, they do not appear, at least on the basis of initial reports, to be life threatening to any institution," the rating agency said.

The tone of S&P's remarks Thursday echoes that of some reports this week from Wall Street fixed-income firms. Merrill Lynch said almost every global financial entity has derivative contracts outstanding with Enron. "This is actually a positive as risk to Enron is spread over a large number of counterparties," Merrill said.

But what's been difficult for agencies like S&P to get at, is the full picture of Enron's exposure throughout financial markets, such as derivatives. Enron's liabilities to counterparties, or the amount it owed to third parties under derivatives contracts, was around \$18.7 billion as of Sept. 30, according to Swaps Monitor, the New York firm that tracks over-the-counter derivatives.

A lot of Enron's derivatives counterparties who didn't want to keep the full share of their Enron exposure on their trading books may have offloaded some of the risk in the credit derivatives market, or through surety bonds issued by insurers. That in turn created more financial contracts or synthetic bonds that use credit derivatives exposed to an Enron failure.

"We, by no means, have gathered the complete picture of who's holding the bag," S&P's Tanya Azarchs told Dow Jones Newswires.

Last week, S&P noted about a \$3.3 billion notional, or face value, of Enron credit exposure in the synthetic collateralized debt obligations, or CDOs, that it rates. In these deals, the credit risk of a portfolio of obligors is transferred to a swap counterparty and to investors who buy notes ranging from high credit quality to slightly speculative. Enron also was a swap counterparty on some \$3 billion face value worth of deals rated by S&P.

And Enron was among the more actively-traded names in the single name credit default swap market, insurance-like contracts between two counterparties that protect against defaults and other credit events like restructuring. Estimates from CreditSights in New York put the counterparty exposure to Enron in the default swap market in the range of \$8 billion to \$10 billion.

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The bonds are held mostly by insurance companies, pension and mutual funds, and CDO structures, which, in turn, may be held by insurance and banking organizations, S&P said.

Among banks, the highest exposures in dollar terms are to be found at Enron's lead banks, J.P. Morgan Chase & Co. (JPM) and Citigroup Inc. (C), S&P said. But much of that exposure is secured.

As of Thursday, the estimated direct exposure of U.S. insurers' asset portfolios to securities issued by Enron and its affiliates is more than \$3.5 billion, which is not likely in itself to "negatively affect" the ratings of those insurers, S&P added.

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And S&P added that those with Enron exposure often sought to protect themselves by obtaining credit protection on the Enron name in the form of credit default swaps, letters of credit, or bank guarantees. This transferred the risk beyond the natural counterparties on derivative transactions, which are otherwise a relatively small group of companies.

"The mechanism of diversifying risk, by laying it off in a variety of markets, worked," Azarchs said.

-By Joe Niedzielski, Dow Jones Newswires, 201-938-2039; joe.niedzielski@dowjones.com

Gross, Jared

From:

Gross, Jared

Sent: To:

Thursday, December 06, 2001 4:56 PM

"lawranne.stewart@mail.house.gov"

Subject:

FW: DJ: US Power Markets Showing Few Scars From Enron's Fall

----Original Message----

From: Carleton, Norman

Sent:

Thursday, December 06, 2001 4:26 PM To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (Email); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject: DJ: US Power Markets Showing Few Scars From Enron's Fall

December 6, 2001

US Power Markets Showing Few Scars From Enron's Fall

By JON KAMP and KRISTEN MCNAMARA

Of DOW JONES NEWSWIRES

NEW YORK -- U.S. electricity markets continued to hum along Thursday without Enron Corp.'s (ENE) formerly dominant presence, and with few signs the energy giant's sudden departure is having any impact on prices.

The unwinding of trading positions with Enron has caused some prices to fluctuate recently. But such trading activity has waned, and fundamental factors like weather conditions and natural gas prices have regained their place as key market drivers, traders said.

"I think everybody's done unwinding," said one power trader, who noted that Enron's Web-based trading platform wasn't showing any prices Thursday. "There's not a market open on EnronOnline."

Enron wouldn't comment on the status of its trading operations or EnronOnline Thursday.

Even in the Northeast U.S., one area where forward power prices were moved recently by Enron's troubles, prices were once again moving on normal market conditions, traders said.

"Right now, everything's back to normal," a New York trader said, with "no influence at all" from Enron.

Prices for Northeast electricity scheduled for delivery months from now fell late last week, as traders sought to resell power previously contracted with **Enron** into an already saturated market. Early this week, traders who had purchased electricity from **Enron** and dissolved those contracts emerged as buyers, sending prices back up. That trend seemed to end Thursday, as traders finished flattening positions with **Enron**.

Stronger natural gas futures prices bolstered so-called forward power prices in the Northeast Thursday. The price of natural gas, fuel for a growing number of power plants, is often a major influence on forward electricity markets.

The price for power scheduled for delivery in New York City during summer 2002 traded at \$72 per megawatthour Thursday, up \$1 from the price seen for the same contract the previous day. Prices for winter power also rose \$1 in New England, pushed up by with natural gas, to trade at \$38/MWh.

A similar increase in Midwest and Southeast forward power trading - linked by some traders to unwinding Enron positions - also appears over with little impact seen on prices, traders said.

Gross, Jared

From:

Gross, Jared

Sent:

Thursday, December 06, 2001 4:56 PM

To:

'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: Enron's \$1.5B DIP Loan Syndication To Start Next Week

-----Original Message-----From: Carleton, Norman

Sent: Thursday, Decen

Thursday, December 06, 2001 4:25 PM

To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark.

Subject: DJ: Enron's \$1.5B DIP Loan Syndication To Start Next Week

December 6, 2001	

Enron's \$1.5B DIP Loan Syndication To Start Next Week

By CAROL S. REMOND

Of Dow Jones Newswires

NEW YORK -- Enron Corp.'s (ENE) \$1.5 billion interim financing package will be marketed for syndication beginning next week.

A final term sheet for the deal, which was preliminarily approved by the bankruptcy judge who oversees Enron's reorganization on Dec. 3, is now in the process of being finalized, people familiar with the matter said Thursday.

J.P. Morgan Chase & Co. (JPM) and Citigroup INC. (C), Enron's two lead banks, have been organizing the rescue loan, known as debtor-in-possession, or DIP, financing.

That money is needed for the company to continue to operate and to protect any value left - value that could be crucial for creditors to recoup any of their losses.

Under the terms of the deal, Enron has already received \$250 million from J.P. Morgan Chase and Citigroup. Another \$250 million is expected to become available in the next couple of weeks, after Enron's lenders approve the company new business plan.

The final \$1 billion in funding is contingent on final approval of the court and successful syndication of the loan. Some of that last installment will be used to repay a \$550 million loan extended by Citigroup and J.P. Morgan Chase to Enron last month.

Although Enron's rapid fall has left a number of financial institutions exposed to the company's fiscal and accounting woes, the people familiar with the matter said they expected most syndicate players to be interested in taking on some of the DIP financing. In a loan syndication, lead lenders offload a large part of the loan onto other banks, thereby sharing the risk with the so-called syndicate group.

Most banks are willing to take on DIP lending because such exposure is senior to all other claims in bankruptcy court. DIP loans are also attractive because they carry higher interest rates.

In the case of Enron, DIP financing comes at a cost of 350 basis points (3.5 percentage points) over the London Interbank Offered Rate, or LIBOR. That's 100 basis points wider than the rate under which Citigroup and J.P. Morgan Chase recently loaned \$1 billion to Enron, which consisted of a \$550 million loan secured by Enron's Transwestern pipeline and a \$450 million loan secured by the company's Northern Natural Gas pipeline.

The final DIP package is scheduled to be approved by the bankruptcy judge on Jan. 7.

Meanwhile, J.P. Morgan Chase and Citigroup are said to continue working with UBS AG (UBS) on a plan to form a joint venture under which UBS' subsidiary UBS Warburg would take over Enron's trading operations. Such a venture would help shore up EnronOnline which was once one of Enron's most valuable asset.

Spokesmen for J.P. Morgan Chase, Citigroup and UBS declined to comment officially. A spokesman for Enron wasn't immediately available.

Enron filed for bankruptcy protection on Dec. 2 after its debt was downgraded to junk status and investors and clients lost confidence in the company over accounting irregularities and off-balance-sheet liabilities. The Chapter 11 filing is the largest in U.S. history, with more than \$31 billion in reported debt and billions more in as-yet unreported off-balance-sheet liabilities.

-By Carol S. Remond; Dow Jones Newswires; 201 938 2074; carol.remond@dowjones.com

From:

Gross, Jared

Sent: To:

Thursday, December 06, 2001 4:56 PM 'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: Judge Mulls Freezing Accts Of 29 Enron Officers, Directors

----Original Message----

From:

Carleton, Norman

Sent:

Thursday, December 06, 2001 4:23 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean;

Subject:

DJ: Judge Mulls Freezing Accts Of 29 Enron Officers, Directors

December 6, 2001

Judge Mulls Freezing Accts Of 29 Enron Officers, Directors

Dow Jones Newswires

HOUSTON -- A law firm representing Amalgamated Bank said a judge will consider freezing the accounts of 29 officers and directors of Enron Corp. (ENE) accused of fraud at a hearing on Friday.

Amalgamated Bank filed a lawsuit Wednesday against Enron, alleging that through "false and misleading" financial reports and statements, certain officials - including Enron Chief Executive Kenneth Lay, former CEO Jeffrey Skilling, and former Chief Financial Officer Andrew Fastow pumped up Enron's stock price and took advantage of that to "dump" a total of 17.3 million shares for more than \$1.1 billion.

In a press release Thursday, Milberg Weiss Bershad Hynes & Lerach, the firm representing Amalgamated, said the judge will hear the bank's request for unusual "expedited discovery" powers to open up personal records of the 29 defendants and reveal the extent of additional liquidations and limited partnerships not currently made public.

Amalgamated Bank submitted the ex parte application for a temporary restraining order and injunction after filing the lawsuit.

Amalgamated, a union-owned bank whose Longview funds own Enron shares, charges it lost \$10.3 million due to the decline of Enron stock and bonds.

An Enron spokesperson wasn't immediately available for comment.

From:

Gross, Jared

Sent:

Monday, December 03, 2001 2:54 PM

To:

'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: Enron Canada To Ask Court To Enforce Energy Contracts

-----Original Message-----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 2:38 PM

To:

Salladin, Anne; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared;

Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidilyrine; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

DJ: Enron Canada To Ask Court To Enforce Energy Contracts

December 3, 2001

Enron Canada To Ask Court To Enforce Energy Contracts

By Dina O'Meara Of DOW JONES NEWSWIRES

CALGARY -- Enron Canada Corp. will ask an Alberta court Wednesday to prevent its trading counterparties from exiting their contracts for 30 days, according to documents obtained by Dow Jones Newswires.

The action is needed to ensure **Enron** Canada - which wasn't included in **Enron** Corp.'s (ENE) filing for bankruptcy-court protection Sunday - can continue to operate, Rob Milnthorp, president and CEO of the Calgary-based company, said in a Dec. 2 letter to counterparties.

"Enron Canada is solvent and is able to continue to pay its obligations as they become due, provided the arms-length counterparties who have entered into contracts with us continue to perform their obligations," Milnthorp said.

Enron Canada first sought a stay from the Court of Queen's Bench of Alberta on Friday, but was ordered first to notify its counterparties.

If the court doesn't grant the stay, **Enron** Canada may request an order appointing a liquidator under Canadian law, a lawyer for **Enron** Canada said in a letter to the court.

From:

Gross, Jared

Sent: To: Monday, December 03, 2001 2:54 PM 'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: Enron Hint On Other Affiliates Comes From Court Motion

-----Original Message-----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 2:46 PM

To:

Salladin, Anne; Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared;

Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

DJ: Enron Hint On Other Affiliates Comes From Court Motion

December 3, 2001

Enron Hint On Other Affiliates Comes From Court Motion

NEW YORK -- Enron Corp. (ENE) suggested Monday that some of its affiliates beyond those who have already filed for Chapter 11 bankruptcy protection may do so in the future.

In a motion filed with the New York federal bankruptcy court hearing Enron's Chapter 11 case, the company said it "anticipate(s) that certain of (Enron's) non-debtor affiliates may also file voluntary petitions under Chapter 11."

An Enron spokesman couldn't immediately be reached for comment.

Enron and 13 related entities filed for Chapter 11 protection Sunday. Not all of Enron's businesses filed, however, and the statement in Monday's motion raises the possibility that some of them might file down the line.

The statement came in the context of a request by **Enron** for the court to extend the deadlines for filing several documents it must file under bankruptcy law, including schedules of its assets and liabilities and statements of its financial affairs. The company said that other affiliates might file for Chapter 11, and that if they did, the extended deadlines should apply to those entities too.

The company didn't say which affiliates might file, or when, or how likely it was to happen.

-By Michael Rapoport, Dow Jones Newswires; 201-938-5976; michael.rapoport@dowjones.com

From:

Gross, Jared

Sent: To:

Monday, December 03, 2001 2:54 PM

"lawranne.stewart@mail.house.gov"

Subject:

FW: DJ: CMS Energy Refutes Enron Creditor Claim; Owes Enron Money (Confusion over

----Original Message--

From:

Carleton, Norman

Monday, December 03, 2001 2:49 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schuttheiss, Heidlynne; Sharer, James;

Whaley, Jean; Wiedman, Mark

Subject:

DJ: CMS Energy Refutes Enron Creditor Claim; Owes Enron Money (Confusion over who owes)

December 3, 2001

CMS Energy Refutes Enron Creditor Claim; Owes Enron Money

By CHRISTINA CHEDDAR

Of DOW JONES NEWSWIRES

NEW YORK -- In an illustration of just how complex Enron Corp.'s (ENE) bankruptcy case will be, CMS Energy Corp. (CMS) said it shouldn't be listed among Enron North America Corp.'s largest unsecured creditors.

According to CMS Energy spokesman Kelly Farr, CMS Energy, a Dearborn, Mich., operator of electric and gas utilities, owes **Enron** money when all of its forward trading positions are "netted out."

Farr declined to say how much it owes Enron.

In the court filing for Enron's marketing and trading unit, Enron North America said it owes the energy marketing unit of CMS Energy \$13.6 million for trading debt.

An Enron spokesman wasn't immediately available to comment.

Enron filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code late Sunday night in the U.S. Bankruptcy Court for the Southern District of New York. The initial hearing on the case is scheduled for 4 p.m. EST Monday.

Enron North America, one of the 14 Enron units included in the filing, was said to have \$13.74 billion in assets, and \$8.84 billion in debts, not including any off-balance sheet or contingent obligations.

-By Christina Cheddar, Dow Jones Newswires; 201-938-5166; christina.cheddar@dowjones.com

From:

Gross, Jared

Sent: To: Monday, December 03, 2001 12:12 PM 'lawranne.stewart@mail.house.gov'

Subject:

FW: WSJ: Finance Firms Stand to Gain Share Of Markets Enron Once Dominated

----Original Message-----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 12:09 PM

To:

Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori

Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James;

Whaley, Jean; Wiedman, Mark

Subject:

WSJ: Finance Firms Stand to Gain Share Of Markets Enron Once Dominated

December 3, 2001

Finance Firms Stand to Gain Share Of Markets Enron Once Dominated

By RANDALL SMITH and HENNY SENDER

Staff Reporters of THE WALL STREET JOURNAL

Although financial-services firms are on the hook for billions owed to them by Enron Corp., there also are some winners among Wall Street firms that stand to pick up market share in the energy trading markets that Enron dominated.

Both Goldman Sachs Group Inc. and Morgan Stanley & Co., for example, hold leading positions in numerous energy markets, and both Wall Street experts and some executives at the firms said they should stand to benefit in increased trading volume.

Van Hesser, a credit analyst at Credit Suisse First Boston, noted in a report Friday that both Goldman and Morgan Stanley "have meaningful energy-trading operations." He cautioned that those firms might incur "some additional risk [from] their exposure to smaller, less-sophisticated trading firms that may be stressed by their own exposures to Enron." But, Mr. Hesser added, "they are experienced hands and know how to hedge and how to structure collateralized trading agreements."

John Shapiro, head of global energy trading at Morgan Stanley, agreed that his firm would likely be one of the financial-services firms whose trading activity could benefit from the reduction in Enron's market activity. Other participants that could also benefit include the trading units of J.P. Morgan Chase & Co., Bank of America Corp., Societe Generale SA and Deutsche Bank AG.

[Go]See full coverage of the rise and fall of Enron

Although Goldman doesn't break out its commodity-trading revenue, Morgan Stanley does. For the fiscal year that ended in November 2000, Morgan Stanley's principal transaction commodity trading revenue rose 34% to \$579 million, helped by higher revenue for energy-related products including

1

electricity, natural gas and crude oil.

One barometer of the impact of Enron's reduced market presence has already been seen at Intercontinental Exchange, an online energy marketplace that has trailed a competing platform, EnronOnline. In an interview Thursday with Dow Jones Newswires, ICE Chief Executive Jeffrey Sprecher said, "Our volumes are just soaring." Traffic on the ICE system has doubled in the past two weeks, and, Mr. Sprecher added, "I'd attribute all that to Enron's problems."

ICE's financial-services partners include Goldman, Morgan Stanley, Deutsche Bank and Societe Generale.

Although Morgan and Goldman have both fielded calls from parties that traded with Enron and want to shift some of their activity to those firms, an executive of one of the firms said the possibility of a bankruptcy-law filing had deterred dealers from taking over any of Enron's trading books or assets. That is because any such transactions could be disrupted or canceled in the course of a bankruptcy proceeding — a step Enron took Sunday.

Enron's relations with Wall Street firms had shifted in recent years from that of a favored client to a rivalry as well, as Enron's trading ambitions grew and it began treading more and more on Wall Street's turf. Enron moved from trading securities closely related to its natural-gas business into oil derivatives and then to instruments closer to Wall Street's core, such as credit derivatives and packaging securities.

One securities firm that won't benefit as much as some might believe is the Salomon Smith Barney unit of Citigroup Inc. Although Salomon used to engage in more sizable energy-trading activity through its Phibro commodities arm, the firm has wound down much of those activities, and doesn't have anywhere near the market presence of Goldman or Morgan Stanley.

Stephen Parker contributed to this article.

Write to Randall Smith at randall.smith@wsj.com and Henny Sender at henny.sender@wsj.com and Henny Sender at henny.sender@wsj.com

Gross, Jared

From:

Gross, Jared

Sent: To: Monday, December 03, 2001 12:12 PM lawranne.stewart@mail.house.gov'

Subject:

FW: WSJ: Credit-Derivatives Market Faces Stiff Test After Collapse of Enron

-----Original Message-----

From:

Carleton, Norman

Sent:

Monday, December 03, 2001 12:07 PM

To: Rair Shella: Berard Shove: Ritcherner

Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James;

Whaley, Jean; Wiedman, Mark

Subject:

WSJ: Credit-Derivatives Market Faces Stiff Test After Collapse of Enron

December 3, 2001

Credit-Derivatives Market Faces Stiff Test After Collapse of Enron

By HENNY SENDER

Staff Reporter of THE WALL STREET JOURNAL

The collapse of Enron Corp. casts a spotlight on a little-known but highly complex market in credit derivatives, a market that has swelled from almost nothing five years ago to a face value of more than \$1 trillion today, according to estimates from Goldman, Sachs & Co.

Now, as Enron files for protection under Chapter 11 of the Bankruptcy Code, the credit-derivatives market faces the biggest test of its young life. The way the market functions over the next few weeks will have significant consequences in determining who will bear the potentially massive losses, how widely those losses will be distributed and whether any one institution took overly risky bets by having significant concentrations of unhedged exposure to Enron. Whether Enron's collapse takes any other institutions down with it will probably be decided in this marketplace.

Enron was a big presence in this market. For one thing, since Enron had a voracious appetite for capital and raised so much debt -- \$13 billion in bonds and loans on the parent's balance sheet alone, and much more off -- numerous financial institutions needed to hedge their Enron bonds and loans. And then, because Enron was such a huge dealer itself, especially in longer-dated, thinly traded securities where few others made markets as boldly, it became Wall Street's counterparty on everything from oil to weather to credit derivatives.

"Enron showed up everywhere," says the head of the credit-derivatives desk at one major bank in New York. "Everyone had exposure to it."

[Go]See full coverage of the rise and fall of Enron

In recent weeks, before its debt crumbled to a small fraction of its face value on news of the company's loss of its investment-grade status, hundreds of Enron's lenders, bondholders and counterparties sought to buy protection against possible default by Enron through one significant segment of the credit-derivatives market, called credit-default swaps (a complicated name for what was essentially insurance in case Enron defaulted). Indeed, the demand for protection against a default by Enron was so great that the price was far higher than it should have been, given its then-high credit rating. At the same time, it was tempting for many parties to offer that insurance. The business seemed an easy way to earn fees; only if Enron defaulted would the seller have to make any payments. And, given Enron's longstanding investment-grade status and \$62 billion in assets, default seemed a remote possibility.

There are other ways in which Enron cast a huge shadow in this market. For example, Enron's own debt was a big piece of the many packages of securities others assembled and sold to investors. Now, the credit of the whole package becomes weaker. Moreover, Enron packaged securities itself, through special-purpose vehicles on which it provided guarantees, as part of its ambitions to be a financial powerhouse.

To be sure, the market has already had some experience with defaults. Three years ago, there was the Russian debt crisis; this year the market has already absorbed such shocks as the Chapter 11

filings of Pacific Gas & Electric Co. and financial-services company Conseco Inc. and the collapse of Swissair Group. But the three combined don't begin to approach the magnitude of an Enron.

Part of the problem is the uncertainty; nobody yet knows the full scale of Enron's involvement in the market or how much insurance was written against a default by Enron. Because credit derivatives aren't exchange-traded, and the deals are off-balance-sheet, the market is relatively opaque. Standard & Poor's put out an analysis Friday suggesting various Enron exposures in the credit-derivatives market could amount to more than \$6 billion. But that number just reflects the securities that happen to have been rated; Nik Khakee, who heads S&P's structured Finance Derivatives group, concedes that those securities are a small part of the total. "If the recovery value is zero, there will be huge losses for investors," Mr. Khakee says.

Write to Henny Sender at henny.sender@wsj.com <mailto:henny.sender@wsj.com>

From:

Gross, Jared

Sent:

Monday, December 03, 2001 9:53 AM

To:

'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: IN THE MONEY-2: Collateral Key To Counterparties Recovery

·····Original Message·····

From:

Carleton, Norman

Sent:

Thursday, November 29, 2001 6:13 PM

To:

Bair, Shella; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInemey, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Cetina, Jil; Eichner, Matthew; Hammer,

Viva; Lori Sanatamorena (E-mail); Novey, Michael; Pietrangeli, Fred; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

DJ: IN THE MONEY-2: Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2: Collateral Key To Counterparties Recovery

Dow Jones Newswires

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although Enron has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue Enron all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. Enron shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although Enron and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by Enron on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of Enron took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to Enron.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

Gross, Jared

From:

Gross, Jared

Sent: To: Monday, December 03, 2001 9:53 AM lawranne.stewart@mail.house.gov

Subject:

FW: DOW JONES NEWSWIRES: Bank Regulators See No Systemic Risk From Enron

Collapse

----Original Message-----

From:

Carleton, Norman

Sent:

Thursday, November 29, 2001 6:16 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangell, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James;

Whaley, Jean; Wiedman, Mark

Subject:

DOW JONES NEWSWIRES: Bank Regulators See No Systemic Risk From Enron Collapse

November 29, 2001

Bank Regulators See No Systemic Risk From Enron Collapse

By REBECCA CHRISTIE

Of DOW JONES NEWSWIRES

WASHINGTON -- U.S. bank regulators say the financial collapse of energy giant **Enron** should have little lasting impact on the banking industry.

None of the four major bank regulators expressed concern Thursday that Enron's meltdown would snowball into systemic problems.

"It's something we are looking at. We have not identified anything that would concern us a great deal," said Mark Schmidt, assistant director of supervision for the Federal Deposit Insurance Corporation, of possible ripple effects from Enron's difficulties. "Obviously the **Enron** situation is something we and other regulators are following closely."

Bank regulators generally don't comment on specific banks. Schmidt said the banks the FDIC has been contacted haven't expressed undue concern about Enron's crisis. Schmidt said regulations and internal guidelines generally limit bank exposure to any one company and even any one industry.

"We are not aware of any individual bank that house outsized direct exposure to Enron," Schmidt said. "Obviously, there will be some losses suffered."

Citigroup was one of the banks with the closest ties to Enron's failed deal with Dynegy Inc., which scotched its buyout bid Wednesday as financial ratings agencies lowered Enron to junk status. Citigroup is regulated by the Office of the Comptroller of the Currency, which had no specific comment on that bank but expressed confidence in the banking industry's ability to weather the storm.

"The OCC continually monitors market conditions and banks are always in the process of taking profits and losses," said a spokesman for the Office of the Comptroller of the Currency. "The OCC is confident that any losses due to market conditions can be accommodated with minimum impact."

Another major would-be dealmaker, JP Morgan Chase, is regulated by the Federal Reserve. The Fed had no specific comment on banks' exposure to **Enron**, but a spokesman for the Federal Reserve Bank of New York noted Wednesday that "the markets are functioning normally."

The Office of Thrift Supervision, whose members generally lend to homebuyers and smaller businesses, also was not expecting a major ripple effect.

"It looks like the Enron deal would have no broad-range effect on the thrift industry," said Office of Thrift Supervision spokesman Sam Eskanazi, who noted that thrifts tend to lend to smaller businesses. Still, he said OTS was "monitoring the situation carefully."

-By Rebecca Christie; Dow Jones Newswires; 202 862 9249; rebecca.christie@dowjones.com

From:

Gross, Jared

Sent:

Monday, December 03, 2001 9:53 AM 'lawranne.stewart@mail.house.gov'

Subject:

FW: Enron's Financial Woes Ripple Out Across Asia

·····Original Message-----

From:

Carleton, Norman

Sent:

Thursday, November 29, 2001 6:19 PM

To:

Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes,

Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Arry; Sutton, Gary; Tishuk, Brian

Subject:

Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By JASON BOOTH, HENNY SENDER and RICHARD B. SCHMITT

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron** Corp. sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If Enron files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by Enron, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. Enron has about 800 trading partners or creditors.

The scale of the Enron collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the Enron umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered **Enron** stock, which was halted for a time on

Wednesday, and knocked lower some of its financial backers' shares. **Enron** shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, **Enron** was trading down 33%, or 20 cents, to 41 cents. On Wednesday, **Enron** bonds also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where Enron Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of Enron. "The recent developments with Enron serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, Enron's presence in South Korea appears to be nearing an end. According to officials at SK Corp., Enron plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that Enron had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepco is looking to sell assets as past of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to Enron debt, which amounted to about 40 billion yen (\$324.9 million). Enron news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of Enron were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to Enron entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by Enron pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

Rebecca Smith and Robin Sidel contributed to this article.

Write to Jason Booth at jason.booth@awsj.com, Henny Sender at henny.sender@wsj.com <mailto:henny.sender@wsj.com> and Richard B. Schmitt at rick.schmitt@wsj.com <mailto:rick.schmitt@wsj.com>.

Gross, Jared

From:

Gross, Jared

Sent: To:

Monday, December 03, 2001 9:53 AM 'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: Enron's Global Reach

·····Original Message···

From:

Carleton, Norman

Sent:

Friday, November 30, 2001 3:44 PM

To:

Salladin, Anne; Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidlynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

DJ: Enron's Global Reach

Click on icon to see map.

Enron's Global Reach



North America

Purchases, markets and delivers natural gas, electricity and other commodities, and runs a broad range of price, risk management and financing services.

Latin America

Has interests in natural gas, crude oil and products pipelines and a transmission system for the distribution of electricity.

Europe

Delivers physical commodities, price risk management and financing services; operates several power plants.

Asia/Pacific

Owns interests in electricity-generating plants and distribution of natural gas liquids; conducts

commodity risk management and finance services.

Gross, Jared

From:

Gross, Jared

Sent:

Monday, December 03, 2001 9:53 AM

To:

'lawranne.stewart@mail.house.gov'

Subject:

FW: DJ: Enron Collapse Could Weigh Heavy On Some Insurers

----Original Message-

From:

Carleton, Norman

Sent:

Friday, November 30, 2001 3:55 PM

To:

Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori

Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pletrangell, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James;

Whaley, Jean; Wiedman, Mark

Subject:

DJ: Enron Collapse Could Weigh Heavy On Some Insurers

November 30, 2001

Enron Collapse Could Weigh Heavy On Some Insurers

By CHAD BRAY

Of DOW JONES NEWSWIRES

NEW YORK -- The insurance industry didn't need Enron Corp.'s (ENE) problems, particularly when it comes to reinsurance prices.

Primary insurers could be on the hook for as much as \$2 billion in claims against directors and officers policies, surety bonds and financial guarantees related to the Houston energy trading firm. which, among its options, is considering seeking Chapter 11 bankruptcy protection. Some insurers also will likely take a hit in their investment portfolios if Enron defaults on its bond payments.

The loss would be material, but not devastating for the industry. However, amid the backdrop of the World Trade Center disaster, Enron's impact could pressure some firms going forward, particularly if most of their Enron risk was ceded to reinsurers. "This event is likely to exacerbate the (reinsurance) capacity shortfall in the market that already exists, making 2002 one of the more, if not the most, powerful pricing years in recent history," said Alice Schroeder, a Morgan Stanley insurance analyst.

Reinsurance prices were rising prior to the Sept. 11 terrorist attacks. Rates are expected to rise dramatically in light of the events as reinsurers get a handle on how to insure this new risk in the U.S.

Aviation rates, for example, have already climbed 200% to 300% in some cases. Reinsurers also are willing to take on less risk, forcing primary insurers to keep more of the coverage or write policies offering less coverage.

Chubb Corp. (CB), a Warren, N.J., insurer, said it was reviewing its surety bonds related to Enron

and could have a maximum net pretax exposure under outstanding surety bonds of about \$220 million. The firm said its after-tax exposure is \$143 million, or 82 cents a share.

A company takes out a surety bond in the event it can't fulfill a contractual obligation. Typically, surety bonds would pay out any monetary guarantees if a company was unable do so. Surety bonds are often used to improve a firm's credit rating.

The insurer was unable to estimate the actual amount, if any, that they may be required to pay or the timing of those payments because of contingencies, including the actions of others, possible judicial rulings or the amounts that Chubb may recover under surety bond documents. No claims have yet been filed under the surety bonds.

Jay Cohen, a Merrill Lynch analyst, said Chubb's surety bond obligations in regards to Enron generally guaranteed the delivery of natural gas to energy producers, such as utilities. Each bond could have different defined events that would trigger a claim, such as a bankruptcy, Cohen said.

"The Enron loss will likely be a very sizable one in the surety line, a line that was not particularly effected by the Trade Center attack," Cohen said. "The loss will likely exceed \$1 billion and we note that the industry wrote surety premiums totaling \$3.5 billion in 2000. We would expect this loss to have an effect on insurers' risk appetite pertaining to surety obligations."

Cohen said Chubb likely has reinsurance for its losses and that its gross exposure is "above the \$220 million maximum net exposure."

Ron Frank, a Salomon Smith Barney analyst, said, while the **Enron** situation is clearly "unusual," the loss should be viewed relative to Chubb's overall financial condition, which is quite solid. He said Chubb's historical profitability in surety is "very good even including **Enron**."

Frank noted the Chubb announcement didn't address any other exposure to **Enron**, such as directors and officers liability. "Management did comment to us that if they saw another exposure material to earnings per share, it would have been released," Frank said. "We infer from this that reinsurance and reserves will meaningfully mitigate such exposures."

Large surety writers include St. Paul Cos. (SPC), American International Group (AIG), CNA Financial (CNA), Act Ltd. (ACE), Safeco Corp. (SAFC) and the Travelers unit of Citigroup Inc. (C). However, not all large writers of surety obligations necessarily have an exposure to **Enron**.

At the same time, a major **Enron** loss could inhibit some traditional property-casualty insurers from writing financial guarantee-related risk in the future, said Schroeder, the Morgan Stanley analyst.

Schroeder noted that could be a positive for traditional financial guarantors in terms of less competition, but could also be a concern.

For example, Ambac Financial Group Inc. (ABK) and MBIA Inc. (MBI), both traditional financial guarantors, have been able to "wrap" lower levels of risk on certain collateralized debt obligation deals with traditional P&C insurers, while taking the higher, or less risk prone, layers for themselves. Being conservative in nature, they might not be willing to take on the more risky layers in the future.

-By Chad Bray, Dow Jones Newswires, 201-938-5293 chad.bray@dowjones.com

From:

Gross, Jared

Sent:

Monday, December 03, 2001 9:52 AM

To:

'lawranne.stewart@mail.house.gov'

Subject:

FW: Dow Jones Newswires: Enron To File For Bankruptcy Mon. Or Tues -Report

·····Original Message-----

From:

Carleton, Norman

Sent:

Friday, November 30, 2001 7:19 PM

To:

Salladin, Anne; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss,

Heidlynne; Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

Dow Jones Newswires: Enron To File For Bankruptcy Mon. Or Tues -Report

November 30, 2001

[WSJ.com]

Enron To File For Bankruptcy Mon. Or Tues -Report

Dow Jones Newswires

NEW YORK -- Enron Corp. (ENE) will file for bankruptcy protection on Monday or Tuesday, according to a report on CNBC that cited an Enron employee as its source.

According to CNBC, the employee was told the news by his unit vice president.

The **Enron** employee also said the Houston energy trading company would lay off 95% of the company's staff at that time, and provide employees two weeks severance for each year of service, according to the television network.

Enron wasn't immediately available for comment.

-By Christina Cheddar, Dow Jones Newswires; 201-938-5166; christina.cheddar@dowjones.com

Ellis, Dina

From:

Carleton, Norman

Sent: To:

Thursday, November 29, 2001 6:09 PM

Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne;

Smith, Amy; Sutton, Gary; Tishuk, Brian

Subject:

A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses

bankruptcy netting issues)

November 29, 2001

IN THE MONEY: Enron's Derivatives Could Test Courts

By CAROL S. REMOND and PHYLLIS PLITCH

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with Enron in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in Enron's expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with Enron, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by Enron. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that Enron will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of Enron's recent losses, the treatment of derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in Enron's assets. That's an issue that will permeate the proceedings with all of Enron's stunned creditors. On top of its derivative exposure, Enron is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, Enron was a party to billions of dollars of derivative contracts

designed to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, Enron was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for Enron and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although Enron has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue Enron all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. Enron shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, Enron is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although Enron and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by Enron on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of Enron took a nose dive after Dynegy rescinded its merger offer, with trading levels

indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to Enron.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com (Phyllis Plitch contributed to this column.)

Ellis, Dina

From:

Carleton, Norman

Sent:

Thursday, November 29, 2001 6:13 PM

To:

Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Cetina, Jill; Eichner, Matthew; Hammer, Viva; Lori Sanatamorena (E-mail); Novey, Michael; Pietrangeli, Fred;

Sharer, James; Whaley, Jean; Wiedman, Mark

Subject:

DJ: IN THE MONEY-2: Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2: Collateral Key To Counterparties Recovery

Dow Jones Newswires

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

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-By Carol S, Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

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From:

Carleton, Norman

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To:

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Smith, Amy; Sutton, Gary; Tishuk, Brian

Subject:

Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By JASON BOOTH, HENNY SENDER and RICHARD B. SCHMITT

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron** Corp. sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If **Enron** files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by **Enron**, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. **Enron** has about 800 trading partners or creditors.

The scale of the **Enron** collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the **Enron** umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered Enron stock, which was halted for a time on Wednesday, and knocked lower some of its financial backers' shares. Enron shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, Enron was trading down 33%, or 20 cents, to 41 cents. On Wednesday, Enron bonds also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over

how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where **Enron** Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of **Enron**. "The recent developments with **Enron** serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, Enron's presence in South Korea appears to be nearing an end. According to officials at SK Corp., **Enron** plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that **Enron** had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepco is looking to sell assets as past of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to **Enron** debt, which amounted to about 40 billion yen (\$324.9 million). **Enron** news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of Enron were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to Enron entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by Enron pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

Rebecca Smith and Robin Sidel contributed to this article.

Write to Jason Booth at jason.booth@awsj.com, Henny Sender at henny.sender@wsj.com <mailto:henny.sender@wsj.com> and Richard B. Schmitt at rick.schmitt@wsj.com <mailto:rick.schmitt@wsj.com>.

Ellis, Dina

From:

Carleton, Norman

Sent:

Friday, December 14, 2001 10:02 AM

To:

Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Eichner, Matthew; Hammer, Viva; Lori Sanatamorena (E-mail); Novey, Michael; Pietrangeli, Fred; Whaley, Jean;

Wiedman, Mark

Subject:

Enron and Bankruptcy Bill -- ABI Website

ENRON UPDATE

Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle
Federal Reserve Chairman Alan Greenspan met yesterday with key House lawmakers to
discuss this year's prospects for passing legislation that clarifies corporate bankruptcy laws
by allowing companies to quickly settle outstanding derivatives contracts in the event of an
insolvency, Dow Jones reported. The once-obscure financial issue has gained new
prominence and urgency on Capitol Hill as federal investigators sift through the mess left
behind by Enron's chapter 11 bankruptcy filing. The measure allows institutions to quickly
close outstanding derivatives contracts with bankrupt trading partners by netting all the
losses and gains of individual contracts into one deal.

House Financial Services Chairman Michael Oxley (R-Ohio) invited Greenspan to meet with House Judiciary Chairman James Sensenbrenner (R-Wis.) after Oxley held a bruising hearing on Wednesday on financial improprieties leading to Enron's demise. Complicated, off-balance sheet transactions were the company's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income over four years by \$569 million. Creditors are now lining up to collect on about \$40 billion in debt owed by Enron.

"Congress should not fail to enact netting legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk." Lawmakers are now questioning whether the legislation, which is also attached to a broader bankruptcy bill in both chambers, could be applied to Enron's bankruptcy case if the bill passes this year. Federal securities officials said it was unclear whether they could apply new contract netting laws retroactively. Oxley hopes to get the bill passed by next week, before Congress finishes its work for 2001.

House Probe Seeks Andersen's Records On Enron Audits

The House Energy and Commerce Committee yesterday asked Arthur Andersen to provide records relating to its audits of Enron Corp., Dow Jones reported. At the same time, the committee sent a letter to former Enron Chief Executive Jeffrey Skilling, requesting an interview with committee investigators within the next two weeks. The committee also formally sought interviews with David Duncan, Andersen's partner in charge of the company's Enron account, and Andersen employees involved in the company's audits. The requests came after Joseph Berardino, Andersen's chief executive, told the House Financial Services Committee on Wednesday that the auditing and consulting firm didn't receive critical information from its client concerning the special-purpose entities that brought about Enron's financial downfall.

Enron Seeks Supplier to Take Over California University System Powers Contract
Enron Corp is looking for another electricity supplier to complete its contract with California's
two public university systems, a spokeswoman for California State University said yesterday,
reported Dow Jones. Enron Energy Services Inc.'s current contract with California State and
the University of California Systems expires on March 31, 2004, said spokeswoman Clara
Potes-Fellow. The Enron subsidiary filed for chapter 11 bankruptcy protection Dec. 2.

Enron Contract Hearing Moved To Dec. 18

A bankruptcy court hearing regarding embattled Enron Corp.'s motion to negotiate, end or sell certain contracts has been postponed to next Tuesday, Dec. 18, Dow Jones reported. The meeting was originally scheduled for today. Earlier this week, Enron filed a motion with the court asking to be allowed to terminate with other parties certain contracts with safe-harbor provisions. The company doesn't want to ask for court approval every time it seeks to end an agreement.

In its filing, Enron had asked for authority to end some of these safe-harbor contracts and negotiate payments for each termination. Creditors, including Cinergy Corp.'s Cinergy Services Inc. and Wiser Oil Co., have filed objections. The motions and objections will be addressed at Tuesday's bankruptcy court hearing.

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From:

Carleton, Norman

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Friday, December 14, 2001 10:10 AM

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Gary: Tishuk, Brian

Subject:

DEC 13 ABI Website -- More on Enron and Bankruptcy

Enron Update

House Panel Vows Comprehensive Enron Investigation

House Financial Services Committee members yesterday plunged into what they pledged would be a comprehensive investigation into the collapse of Enron Corp., a task made more difficult by Enron Corp. CEO Kenneth Lay's failure to appear before the panel as a witness, CongressDaily reported. Lay sent the committee a letter on Tuesday, explaining that he would be unable to attend the hearing because he was scheduled to participate in bankruptcy proceedings. Financial Services Capital Markets Subcommittee Chairman Richard Baker (R-La.) said the committee would continue its investigation in "late January, possibly early February." And, he added, "Our task is to establish the facts, change the rules where needed and assist the SEC in pursuit of those who have violated the law."

Several lawmakers on both sides of the aisle also used Enron's demise as an opportunity to renew their calls for the passage of a financial "netting" bill, provisions of which are included in the bankruptcy reform bill. Financial Services Committee Chairman Michael Oxley (R-Ohio) and ranking member John LaFalce (D-N.Y.) agreed that Enron's collapse underscores the urgent need for passage of provisions designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. Netting refers to the practice where the amounts due between financial institutions in the event of a default are quickly calculated as one net amount, helping reduce risk. The netting language is one of the few consensus items included in comprehensive bankruptcy reform legislation that "is destined to go down to defeat," LaFalce asserted. "[Netting] is not a new issue," he furned. "We need to extract [those] provisions and simply pass them independently."

Auditor Hints of 'Illegal Acts' at Enron

Enron Corp.'s outside auditor said yesterday "illegal acts" may have been committed at the energytrading company before it sought bankruptcy protection last week, The Washington Post reported. The chief executive of Arthur Andersen, the accounting firm that approved years of financial statements that overstated Enron's profits and understated its debts, also said Andersen made "an error in judgment" that accounted for \$103 million in overstated profits.

While Joseph F. Berardino testified yesterday on Capitol Hill, giving Andersen's first substantive explanation of why it certified Enron's reports, top Enron officers detailed a reorganization strategy for creditors at a meeting in New York. And former Enron chief financial officer Andrew Fastow, after failing to honor a Securities and Exchange Commission subpoena, surfaced at a news conference to dispel speculation that he had fled the country. In addition to Congress and the SEC, the Justice and Labor departments are investigating Enron's collapse. More congressional hearings are expected next month. To read the entire story, point your browser to http://www.washingtonpost.com/wp- dyn/articles/A34904-2001Dec12.html>.

Enron Seeks \$6 Billion From Asset Sales

Bankrupt Enron Corp. yesterday announced that it may sell its key energy trading unit and plans to raise up to \$6 billion by selling other assets, Reuters reported. Chief Financial Officer Jeff McMahon said that Enron plans to sell its troubled Azurix Corp. water unit, businesses in emerging markets and wind energy assets. It plans to retain its exploration and production unit, wholesale and retail services and regulated businesses. McMahon said Enron has about \$13 billion in unsecured bank debt and an additional \$2 billion in secured bank debt. Enron plans to raise between \$4 billion to \$6 billion with the noncore asset sale.

Dynegy Suit to Gain Enron Pipeline Moved to Federal Court

Dynegy Inc.'s lawsuit to secure ownership of an Enron Corp. pipeline company has been transferred to the Federal District Court in Houston, Dow Jones reported. The state District Court of Harris County, Texas, where Dynegy originally filed the suit, transferred the case on Tuesday. Enron asked that the suit be moved to federal court to determine whether it should be heard by the federal bankruptcy court in New York, as Enron's lawyers have argued, or in state court, as Dynegy prefers. Dynegy plans to seek to move the case back to state court.

Dynegy filed suit against two Enron subsidiaries on Dec. 3 in the state court seeking control of the Enron Northern Natural Gas Co. Dynegy based its claim to Northern Natural on an option it secured from Enron in exchange for a \$1.5 billion cash infusion. The option allowed Dynegy to acquire complete control of Northern Natural in the event Dynegy's offer to acquire Enron fell through. Dynegy terminated its acquisition offer last month and told Enron it was exercising its option to buy Northern Natural. Enron is contesting Dynegy's claim and has sued its one-time suitor for \$10 billion for wrongfully terminating its acquisition offer.

Enron Objection Deadline Extended to Dec. 18

Enron announced that it has moved the date of its next bankruptcy hearing, originally scheduled for tomorrow, to Dec. 20. Enron representatives weren't immediately available to provide the reason for the rescheduling. Enron said the hearing is designed to give adequate assurance to utility companies providing services to Enron and its debtor subsidiaries. In connection with the rescheduled hearing, Enron has extended the objection deadline to Dec. 18.

Ellis, Dina

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Carleton, Norman

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Gary; Tishuk, Brian

Subject:

Enron -- ABI Website Dec. 12

Enron Update

U.S. Congress to Hold First Hearing on Enron Bankruptcy Today

The first congressional hearing into the collapse of Enron Corp. gets underway today with testimony from auditors of the former energy trading giant but not the top executive of the embattled Houston-based company, Reuters reported. Enron chief executive Kenneth Lay declined an invitation to testify before the House Financial Services Committee. "We're disappointed," panel chairman and Rep. Michael Oxley (R-Ohio) said. "But this is [just] the first in a series of hearings and investigations that the committee will be conducting."

Arthur Andersen CEO Joseph Berardino will face questions about when Enron's auditors first realized there were problems with Enron's accounts. SEC Chairman Harvey Pitt, who has promised a thorough but quick probe of Enron, also declined an invitation to appear at today's hearing. Instead, SEC Chief Accountant Robert Herdman will testify. Also set to testify at the hearing is Richard Trumka, secretary-treasurer of the AFL-CIO. Oxley has said any further Financial Services committee hearings on Enron after Wednesday will not occur until 2002.

Congress Demands Records, Briefing From Enron

A congressional committee yesterday demanded that Enron Corp. hand over financial records and meet with committee staff within 10 days, according to Reuters. The House Energy and Commerce Committee called on Enron to turn over documents relevant to the committee's investigation into the company's collapse, said committee Chairman Rep. Billy Tauzin (R-La.) and Rep. James Greenwood (R-Pa). In letters sent this week to Enron Chairman Kenneth Lay, and Andrew Fastow, the company's former chief financial officer, Tauzin and Greenwood also requested staff interviews with both current and former senior Enron employees as well as members of Enron's audit and compliance committee by Dec. 21.

In their letters, Tauzin and Greenwood requested that a mountain of documents be turned over to the committee by Dec. 17. The request listed 43 separate aspects of the Enron case in which the committee has interest, including: earnings restatement decisions, financial ties among Enron officers and outside partnerships they were involved with, minutes from board and audit committee meetings from 1997 to present and correspondence between Enron auditor Arthur Andersen and the company.

J.P. Morgan Sues Enron for \$2.1 Billion

J.P. Morgan Chase & Co., one of Enron Corp.'s biggest creditors, yesterday sued the troubled energy trader for more than \$2.1 billion, Reuters reported. The New York-based bank claimed in a suit filed in the U.S. Bankruptcy Court in New York on behalf of itself and related parties that it has rights to Enron assets such as accounts receivable, commercial paper, cash, and other property, which allegedly are not protected in Enron's bankruptcy proceedings.

Enron holds the assets in dispute only as a servicer for the alleged owners, under two accounts

receivables deals, the suit claims. The assets are not property of Enron because they were sold before Enron's Dec. 2 bankruptcy filing. J.P. Morgan acted as an agent in two credit facilities whose proceeds helped fund two accounts receivables transactions between Enron and Sequoia Financial Assets, a special purpose, bankruptcy-related entity, the suit said. Sequoia allegedly bought the receivables from Enron and reinvested the money collected on the bills in short-term paper issued by Enron and its Enron North America unit.

Dynegy Files Motion to Dismiss Or Transfer Enron Case

Dynegy Inc. filed a motion on Monday asking the federal bankruptcy court in the Southern District of New York to dismiss Enron's \$10 billion breach-of-contract lawsuit against Dynegy, or, to transfer the case to Houston, Dow Jones reported. Enron's claims against its former merger partner "in no way relate to federal bankruptcy law or the administration of these chapter 11 cases," according to the filing.

Dynegy asked the New York bankruptcy court to abstain from hearing Enron's suit against Dynegy, which allegedly involves state rather than federal breach-of-contract claims. Alternatively, the case should take place in Texas - where Enron and most of its units are based - instead of New York, where the "only link to the dispute is ... hung upon the gossamer thread of the location of (Enron's) subsidiary Enron Metals and Commodity Inc."

Ellis, Dina

From: Carleton, Norman

Sent: Friday, December 14, 2001 10:15 AM

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Gary; Tishuk, Brian

Subject: Enron -- Dec. 11 ABI Website

Enron Bankruptcy Update

Enron Japan, Affiliates Seek Bankruptcy Protection

Enron Japan Corp., a wholly-owned subsidiary of failed U.S. energy giant Enron Corp. announced that it and its three Japanese affiliates filed for bankruptcy yesterday, Dow Jones reported. The move follows Enron's Dec. 2 chapter 11 bankruptcy filing in New York. "Enron Japan Corp., Enron Japan Marketing Corp., Enron Japan Funding Corp. and E Power Corp. filed for bankruptcy...in accordance with the Japanese bankruptcy law," Enron Japan said.

Enron Court Hearing Pushed Back to Dec. 20

An Enron Corp. hearing has been rescheduled for Dec. 20 from Dec. 14, Doe Jones reported. The hearing, the second since the energy-trading company filed for chapter 11 bankruptcy protection on Dec. 2, will pertain to Enron's request to continue paying utility companies for electric bills. **Judge Arthur Gonzalez**, who is presiding over Enron's case will also hear an interim request at this time to retain Blackstone Group as financial adviser in Enron's restructuring.

600 Enron Employees Got Bonuses

Nearly 600 Enron Corp. employees deemed critical to running its prized energy trading business received more than \$100 million in bonuses last month as the company faced a merger and then bankruptcy, according to the Associated Press. About half of those bonuses, given to 75 traders in early November when Enron was planning to merge with smaller rival Dynegy Inc., may have to be repaid because the merger collapsed, said **Todd Zywicki**, a law professor at **George Mason University**.

Enron spokesman Mark Palmer said the \$50 million given to traders before the merger crumbled "was done in discussions with Dynegy to protect and preserve the value of the trading organization through what we thought was going to be a fairly long merger process." Dynegy spokeswoman Debbie Fiorito said that Dynegy didn't approve or endorse those bonuses. Enron distributed an additional \$55 million to 500 employees two days before filing for bankruptcy as an incentive for them to remain with the company while Enron works to emerge from chapter 11.

Ellis, Dina

From: Sent: Carleton, Norman

Friday, December 21, 2001 10:37 AM

To:

Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina;

Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith,

Amy; Sutton, Gary; Tishuk, Brian

Subject:

DJ: US Congress Fails To Pass Contract Netting Bill

December 21, 2001

US Congress Fails To Pass Contract Netting Bill

Dow Jones Newswires

(This article was originally published Thursday.)

WASHINGTON -- Despite an eleventh-hour appeal from Federal Reserve Chairman Alan Greenspan and pressure from Wall Street, lawmakers again failed to enact legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency.

The once-obscure financial issue gained new prominence and urgency on Capitol Hill as lawmakers struggled to understand the high-finance finagling that lead to the recent Chapter 11 bankruptcy filing of energy giant Enron Corp. (ENE).

The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by **netting** all the losses and gains of individual contracts into one deal.

"Enron underscores the importance of it," said Peggy Peterson, spokeswoman for the House Financial Services Committee. "The other factor is the recessionary economic climate - the **netting** provisions would lower market risk."

Greenspan recently met with committee Chairman Michael Oxley, R-Ohio, and House Judiciary Chairman James Sensenbrenner, R-Wis., after Oxley held a bruising hearing on financial improprieties leading to Enron's demise.

Pressure to pass the measure was already building since the Sept. 11 terrorist attacks shut down U.S. financial markets and destroyed the Manhattan offices of many Wall Street brokerage houses.

"Congress should not fail to enact **netting** legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk."

But Sensenbrenner rebuffed requests from Greenspan, Oxley and House leaders to pass the legislation apart from the larger bankruptcy bill it was attached. Complicated, off-balance sheet transactions were Enron's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income by \$569 million over four years.

Creditors are now lining up to collect on the approximately \$40 billion in debt owed by Enron.

Of that, roughly \$22 billion is on the balance sheet in the form of bank debt, commodity-transaction financing, bonds and other public securities. The remainder is made up of roughly \$7 billion in bonds and bank debt linked to other assets in special partnerships, as well as an additional \$10.7 billion in "project finance," a term that typically refers to money lent to build power plants or oil refineries.

-By Dawn Kopecki, Dow Jones Newswires; 202-862-6637; Dawn.Kopecki@dowjones.com

Ellis, Dina

From: Richard Cross [rcross@dpob.org] Sent: Monday, January 14, 2002 12:27

To: 'Dina Ellis' January 14, 2002

Andersengate

By WILLIAM SAFIRE

WASHINGTON -- Fed Chairman Arthur Burns, worried that the impending collapse of Penn Central would roil the capital markets, suggested that the Pentagon arrange a loan to prevent bankruptcy. George Shultz, then the Nixon budget director, argued that government intervention would send the wrong message about risk-reward to our economic system.

The dispute was resolved when Bryce Harlow, the sage speechwriter- adviser, entered the Oval Office and said to President Nixon: "The board of Penn Central, in its infinite wisdom, has just hired your old law firm to help you decide. Mr. President, you can't touch this with a ten-foot pole."

Nixon took the advice not to meddle. The huge company went bankrupt - and the markets quietly absorbed the shock. No scandal touched the White House (until later).

We had another non-intervention in the Enron collapse. Kenneth Lay, chairman of the nation's seventhlargest company and a longtime political contributor, called a couple of Bush cabinet secretaries to reveal his rapid unraveling. He was surely hoping for some government succor. The Bush Treasury and Commerce secretaries, without even consulting the president, decided not to mix in.

Then Robert Rubin, now a head of Citigroup, called a high official at Treasury. It was consistent for the man who, as Clinton Treasury secretary, arranged the bailout of Mexico to ask for government help in shoring up the credit rating of a customer that owed his bank \$800 million.

Again, nothing was done by the Bush administration to intervene. Enron went down the drain - but the capital markets survived. Many investors and employees learned the hard way that capitalism is a risky business, but if the taxpayer were to assume all such risk there would be no market punishment for any management inefficiency or corruption.

As a card-carrying scandalmonger, I am moved to ask: Where's the scandal? Democratic Representative Henry Waxman, after eight years with his eyes tightly shut, apparently thinks it scandalous that Bush's men - at the first call from Mr. Lay - did not promptly step in to save the company from the consequences of the greed or predations of its managers. Bush is thus damned for what he did not do.

But at the same time, other scandalmongers are damning Bush for what he may possibly have done such as getting briefed by anybody on his staff and thereby "knowing," or by having taken political contributions from today's villain back when Lay was a Houston hero.

The dozen or so investigations may turn up something to embarrass the White House, especially if Bush pulls another "executive privilege" when Congress wants facts. But the scandal I see in this corporate debacle is non-political; it's professional.

This affair shows the accounting profession all too often to be in bed with the oldest profession.

01/17/2002

Accounting standards have been frequently prostituted by the new Uriah Heeps: these are executives in ever-merging firms afraid to challenge their clients' phony numbers and secret self-dealing because they might lose fees in the lucrative consulting business they run on the side.

These no-account accountants seem to forget that the "p" in C.P.A. means "public." The Big Five are silent about Andersengate because they are eager to become the Big Four by carving up their competitor's carcass. That's why it's harder to find a major bean-counter willing to condemn publicly the failures of Arthur Andersen & Co. than to find a top Muslim cleric willing to criticize Osama bin Laden.

Although Andersen executives may try to cop a plea by ratting on the client they so supinely and profitably enabled, they must explain why, as the biggest bankruptcy in history loomed, their supervisors were so eager to remind those working on the Enron account to destroy records.

Self-dealing; asset-hiding; insider stock-dumping - all these were supposedly beyond the ken of an audit committee and legal counsel blindly reliant on the ethics and standards of "professional" accountants. It's a scandal, all right, and wrongdoers should pay in heavy civil damages if not jail time.

But based on what we now know, it's not a political scandal. Bush's people, including former employees or consultants of Enron, did right by refusing to bail a campaign contributor out of its mess at public expense or by misleading investors. Taxpayers should be grateful.

Richard J. Cross, III
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217 North Charles Street, Suite 100
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410-528-7719
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From:

Carleton, Norman

Sent:

Friday, November 23, 2001 12:13 PM

To:

Nickoloff, Peter; Schultheiss, Heidilynne; Whaley, Jean

Subject:

WSJ article on Enron accounting, Last two paragraphs mention Wendy Gramm

November 9, 2001

Heard on the Street

Enron's Accounting Violated Accepted Financial Practices

By JONATHAN WEIL

Staff Reporter of THE WALL STREET JOURNAL

What could Arthur Andersen have done to protect the investing public from Enron? Brushing up on a basic accounting textbook might have helped, some critics say.

Confirming investors' fears, the Houston energy trader Thursday filed a lengthy disclosure document with the Securities and Exchange Commission declaring that its financial statements going back to 1997 "should not be relied upon" and will have to be restated. Among other problems, Enron acknowledged overstating its net income by a total of \$586 million, or 20%. Enron's financial statements long have been widely assailed as indecipherable. Now, it turns out, they were just plain wrong.

But what is most striking about the latest disclosures is that they show Enron's misstatements weren't limited merely to judgment calls and gray areas for the green-eyeshade crowd to debate. Portions of Enron's accounting practices amounted to violations of elementary accounting principles, some accounting specialists say.

Citing client-confidentiality rules, an Andersen spokesman, David Tabolt, declines to comment on his firm's work for Enron, which on Friday agreed to be bought by crosstown rival Dynegy. He calls Enron's disavowal of its previous financial statements an "unfortunate situation" and says Andersen is cooperating with the SEC's Enron investigation and the special committee formed by Enron to investigate the company's accounting and disclosure practices.

[Go]Dynegy's Enron Deal Faces Uncertainties

Consider the primary reason for the \$1.2 billion reduction in shareholder equity that Enron revealed in mid-October, sparking much of the downdraft in the company's shares. At the time, Enron said the reduction came about because it had decided to unwind certain transactions with some limited partnerships with which it had done business. On Thursday, however, Enron acknowledged that the original accounting for the transactions violated generally accepted accounting principles.

Starting in early 2000, the company said last week, Enron issued shares of its own common stock to four "special-purpose entities," in exchange for which it received a note receivable. Enron said it had increased both its note-receivable assets and shareholder equity, a move the company called "an accounting error" that it is correcting. Under GAAP, the payment a company receives when issuing stock only counts as equity if it is cash. As a result, Enron's 2000 audited financial statements

overstated the company's notes-receivable assets and shareholder equity by \$172 million. And Enron's 2001 unaudited statements overstated them by \$828 million. The \$1 billion overstatement represents 8.5% of Enron's previously reported shareholder equity as of June 30.

"It is basic accounting that you don't record equity until you get cash, and a note doesn't count as cash," says Lynn Turner, a former chief accountant for the SEC. "The question that raises is: How did both partners and the manager on this audit miss this simple Accounting 101 rule?" Adds Douglas Carmichael, an accounting professor at Baruch College in New York: "Anyone that's an accountant looking at the entry should have known" it violated GAAP.

An Enron spokesman, Vance Meyer, says, "The accounting error was just that — an error," explaining that, "We believed it was not material. However, it was, of course, corrected ... And we did make the correction with Andersen's concurrence." He says Andersen "performed limited quarterly reviews" of the company's unaudited financial statements and reviewed the entries that resulted in the shareholder-equity overstatements "to the extent they deemed necessary."

To some who follow the accounting world closely, this has a familiar ring to it. During the past few years, every Big Five auditor has been hit by multiple accounting debacles at high-profile clients. For Andersen, Enron joins a list including Waste Management Inc. and Sunbeam Corp. While the names of the clients may change, the issues remain largely the same.

For instance, Enron had reported net income of \$105 million for 1997, a figure that Enron last week said will be reduced to \$9 million in its upcoming restatement for that year. Enron said the reduction is mostly because of \$51 million in various unexplained "audit adjustments and reclassifications" that its auditors had proposed in 1997 but at the time had determined to be "immaterial." Cumulatively, those immaterial adjustments added up to nearly half of Enron's net income for 1997 and now will be included in the company's restatements.

That looks a lot like what happened at Sunbeam. According to the SEC's May settlement order with Sunbeam, Andersen auditors had routinely dismissed so many violations of GAAP as immaterial that they eventually piled up to produce significant distortions in Sunbeam's financial statements, making the barely solvent consumer-products maker look handsomely profitable. Sunbeam filed for Chapter 11 bankruptcy-court protection this past February. In May, the SEC filed a civil lawsuit against five former Sunbeam executives and the Andersen partner in charge of the company's audit, accusing them of engaging in a massive financial fraud; all six defendants have denied the SEC's allegations. Andersen itself wasn't named as a defendant and has said it believes the lawsuit against its partner was an unjustified action over questions of professional judgment.

Under GAAP, misstatements aren't immaterial simply because they fall beneath a numerical threshold, according to an SEC accounting bulletin. Under certain circumstances -- and it remains to be seen if they apply in the Enron case -- the SEC says intentional immaterial misstatements are unlawful. One reason is that when immaterial misstatements are combined with other misstatements, they can "render the financial statements taken as a whole to be materially misleading."

Enron, which paid Andersen \$25 million last year in audit fees and \$27 million for other services, is one of Andersen's biggest clients. So far, Mr. Tabolt, the Andersen spokesman, says the SEC hasn't told Andersen it is a subject of the Enron probe.

Enron's disavowal of its previous financial statements also is a major embarrassment for the directors who sit on the Enron board's audit committee, which serves as the overseer of Enron's financial reporting, internal controls and compliance processes. Among the committee members is **Wendy Gramm**, a former chairman of the Commodity Futures Trading Commission and the wife of U.S. Sen. Phil Gramm (R., Texas). Ms. Gramm also was a member of the audit committee of IBP Inc., a meatpacking company that earlier this year became engulfed in an accounting debacle that prompted an SEC investigation and nearly derailed Tyson Foods' since-completed plan to buy the company.

Enron last week said its audit committee had been responsible for conducting annual reviews of the transactions between Enron and the partnerships run by former Chief Financial Officer Andrew S. Fastow. The company said its special committee is investigating "whether those controls and

procedures were properly implemented." Through an Enron spokeswoman, Ms. Gramm declined to comment.

Write to Jonathan Weil at jonathan.weil@wsj.com <mailto:jonathan.weil@wsj.com>

Tr			

Recipient Nickoloff, Peter

Schultheiss, Heidilynne

Whaley, Jean

Delivery

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From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:56 PM

To:

Novey, Michael; Eichner, Matthew; Hammer, Viva

Subject:

FW: DJ: Another Enron 'Rally' As Shorts Close Out Positions

-----Original Message-----

From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:42 PM

To:

Bitsberger, Timothy; Gross, Jared; Pietrangeli, Fred; Berardi, Steve; Nickoloff, Peter; Schultheiss, Heidilynne

Subject: DJ: Another Enron 'Rally' As Shorts Close Out Positions

December 5, 2001

Another Enron 'Rally' As Shorts Close Out Positions

By Christina Cheddar

of DOW JONES NEWSWIRES

NEW YORK -- Even as more Enron Corp. (ENE) units succumb to bankruptcy, the Houston energy trader's stock has bounced up over 30% Wednesday in heavy volume.

Buyers of the stock Wednesday included professional investors and traders closing out short positions as well as some retail investors.

The movement comes even though **Enron** shares will likely be worthless by the time its bankruptcy court case is through. This is because there is a strict hierarchy that is followed in a bankruptcy proceeding, and the last in line to get paid are the common shareholders of Enron's stock.

Standing at the front of the line are the lenders who provided the company with debtor-in-possession financing. In Enron's case, this is the \$1.5 billion it received from Citigroup Inc. (C) and J.P. Morgan Chase & Co. (JPM).

Next in line are secured lenders and bondholders whose claims are backed by the company's assets. Behind them are unsecured creditors such as Enron's trading counterparties and vendors seeking to paid.

Anything left over after all of that goes to the company's stockholders.

The original 14 Enron units that filed for bankruptcy on Sunday had more than \$18 billion in combined liabilities, without accounting for any of its off-balance-sheet obligations, which is what got Enron into trouble in the first place.

The Wall Street Journal, citing information provided by bankers involved in the process, said the offbalance-sheet liabilities could add another \$27 billion in debt.

Tuesday's bankruptcy filing by another three units of the company - Enron Net Works LLC, Enron Global Markets LC and Enron Industrial Markets LLC - added \$439 million in debt.

And there is no assurance, Enron won't make additional bankruptcy filings.

A quick look at Enron's bonds shows the skepticism in the market. Enron's bonds are trading at about 25 cents on the dollar, which means bondholders are expecting to get only partial payment for their investment, or are expecting that payment to be far off in the future.

To be sure, some investors who specialize in trading distressed stocks have been making profits on Enron shares as the stock popped back up. Some of these investors may have shorted Enron's stock are buying to close out their positions.

However, some of the activity may come from amateur investors, who think that there still could be hope for a rebound.

"PG&E didn't go to zero," said Andre Meade, an analyst at Commerzbank, referring to the stock of PG&E Corp. (PCG). Burdened by debt from California's high-flying power prices, PG&E's Pacific Gas & Electric Co. unit filed for bankruptcy protection in April. "But there was a good chance its shareholders would get paid. In my opinion, Enron's equity is likely to go to zero, and even bondholders will not be paid."

Enron shares recently traded at \$1.15, up 28 cents, or 32.2%, on volume of 154.6 million compared with average daily volume of 42.2 million.

-By Christina Cheddar, Dow Jones Newswires; 201-938-5166; christina.cheddar@dowjones.com

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Recipient Novey, Michael Eichner, Matthew Hammer, Viva

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From:

Carleton, Norman

Sent:

Tuesday, November 20, 2001 4:46 PM

To:

Novey, Michael; Eichner, Matthew; Hammer, Viva; Gabilondo, Jose

Subject:

FW: Bloomberg: Enron Falls Amid Concern Debt Threatens Dynegy Bid (Update5)

-----Original Message-----

From:

Carleton, Norman

Sent:

Tuesday, November 20, 2001 4:41 PM

To:

Roseboro, Brian; Bair, Sheila; Bitsberger, Timothy

Subject:

Bioomberg: Enron Falls Amid Concern Debt Threatens Dynegy Bid (Update5)

11/20 16:05

Enron Falls Amid Concern Debt Threatens Dynegy Bid (Update5)

By Stacie Babula

Houston, Nov. 20 (Bloomberg) — Enron Corp. shares and bonds dropped after the energy trader disclosed it may have to pay \$9.15 billion in debt due by 2003, suggesting the company may run out of cash before its takeover by Dynegy Inc. can be completed.

Shares of Enron fell \$2.05, or 23 percent, to \$7.01. Earlier they touched \$6.55, the lowest price in more than a decade. Enron's 6.4 percent notes due in July 2006 were bid as low as 69 cents on \$1 of face value and offered at 73 cents, down more than 13 percent in light trading, traders said.

Enron, whose dealings with affiliated partnerships led to earnings restatements, credit-rating cuts, a federal investigation and a management shakeup, said in a regulatory filing that it has less than \$2 billion in cash or credit lines. Dynegy plans to complete its buyout by October, and Enron may have to ask lenders to restructure payment schedules to survive.

"This filing shows that Enron is in a precarious financial situation," said Commerzbank Securities analyst Andre Meade, who rates Enron shares "hold" and doesn't own them. "They have to stay affoat for the Dynegy deal to go through, and that now looks difficult."

Enron and Dynegy wouldn't comment on the stock drop today. Standard & Poor's Investors Service said that Enron's credit rating remained on negative watch, indicating it would not immediately downgrade the company's debt.

\$690 Million Surprise

"Enron's near-term liquidity position is. . . expected to be sufficient to carry the company through the completion of its proposed merger with Dynegy," S&P said in a report.

Investors were concerned the debt, including a \$690 million note that Enron disclosed it may have to pay off next week, would lead to a cut in Enron's credit rating, analysts said.

The filing was a "distraction" that will not threaten the merger, said Todd Shipman, a director at S&P who follows Enron.

"Our approach to this has been on the basis that the Dynegy deal is a good thing for credit quality," Shipman said.

Moody's Investors Service, which didn't issue a statement on Enron's debt today, kept the company's credit rating at investment grade on Nov. 9, the day Dynegy announced it would buy Enron in a deal now valued at \$25 billion.

The ruling came after executives from Lehman Brothers Holding Inc., J.P. Morgan Chase & Co. and Citigroup Inc.'s Salomon Smith Barney lobbled the credit-rating company, people familiar with the situation said.

Avoiding Junk

A junk rating would have led Dynegy to abandon the acquisition, Dynegy Chief Executive Officer Charles Watson said. It would also have triggered debt repayment of at least \$3.9 billion, Enron said in a Securities & Exchange Commission filing vesterday.

Enron shares are selling for almost 32 percent less than the value of Dynegy's offer, showing investors have doubts the deal will be completed. Dynegy shares fell \$1.90 to \$41.70 today.

"It's become more clear that the chances of this deal going through aren't 90 percent, but much closer to fifty-fifty," said Edward Paik, who helps manage the Liberty Utilities Fund, with 1.6 million Enron shares. "There's just so much information that is unknowable" about Enron's financial position, he said.

Most of the \$9.15 billion in debt is due before the end of the third quarter, when the Dynegy buyout is scheduled to close, Enron said yesterday in a third-quarter filing with the SEC.

Asset Sales Planned

Last week, Enron Chief Operating Officer Greg Whalley said the company will sell assets of "non-core businesses" to raise money. It has \$8 billion invested in the businesses, including broadband telecommunications and the Dabhol power plant in India. Enron expects to get "billions" from the sales, Whalley said, without being more specific.

Enron reported yesterday that its U.S. operations had \$1.2 billion in cash left. It has added at least \$5 billion since Sept. 30 from credit lines, loans and a \$1.5 billion investment from ChevronTexaco, part owner of Dynegy.

Enron used \$1.9 billion of the money it raised to retire commercial paper, which is short-term debt. It gave no details on how it spent the remaining \$3.1 billion.

Enron Chief Financial Officer Jeffrey McMahon said last week that the company also was looking to get ahother \$500 million to \$1 billion from private investors.

Asset sales valued at about \$800 million are expected to close by the end of this year, according to the SEC filing. Enron spokeswoman Karen Denne wouldn't comment on whether it could sell assets fast enough to keep current on its debts.

Dynegy will have to help Enron sell assets, said Mitchell Stapley, who manages \$3.5 billion in fixed-income assets including Enron bonds for Fifth Third Investment Advisors Inc.

Dynegy and ChevronTexaco Corp., which owns 26 percent of Dynegy, also will have to help Enron negotiate with its lenders, said Kathleen Vuchetich, who helps manage the \$1.4 billion Strong American Utilities Fund, which is 5 percent Dynegy shares.

Debt Questioned

"I never dreamt (the \$9.15 billion) would be that large, coming due all at once," Vuchetich said. "It calls into question their decision to schedule it that way in the first place."

ChevronTexaco, the second-largest U.S. oil company, is providing \$2.5 billion in cash as part of the Enron buyout. It provided the first \$1.5 billion a week ago.

Shares of ChevronTexaco, based in San Francisco, rose \$3.62 to \$86.53.

Enron yesterday reduced third-quarter results by 3 cents a share, bringing the period's loss to 87 cents, or \$664 million. On Nov. 8, Enron lowered earnings back to 1997 by \$586 million to reflect losses by affiliated partnerships that were wrongly kept off the books. That included a third-quarter reduction of \$17 million.

A drop in Enron's senior unsecured debt rating to ``BBB-" by Standard & Poor's on Nov. 12 may force Enron to pay off a \$690 million note by Nov. 27 if it doesn't find collateral to guarantee the debt taken on by an affiliated partnership that owns Brazilian natural-gas assets, the filing said.

Without repayment or collateral, investors can begin to liquidate the partnership's assets, Enron said. The company said it's working with lenders to come up with an acceptable agreement on the debt.

Making good on debt owed by its Whitewing affiliated partnership may cut Enron's fourth-quarter earnings, Enron said. Enron is obligated to back Whitewing by issuing junior convertible preferred stock. Because Enron's stock has plunged, it may have to write down its assets by \$700 million, the filing said. ©2001 Bloomberg L.P. All rights reserved. <u>Terms of Service http://www.bloomberg.com/tos.html, <u>Privacy Policy http://www.bloomberg.com/trademarks.html.</u></u>

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 Gabilondo, Jose
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From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:57 PM

To:

Novey, Michael; Hammer, Viva; Eichner, Matthew

Subject:

FW: WSJ Aricle on Enron and Mark to Market Accounting

----Original Message----

From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:54 PM

To:

Roseboro, Brian; Bitsberger, Timothy; Gross, Jared; Wiedman, Mark; Nickoloff, Peter; Schultheiss, Heidilynne; Pietrangeli, Fred

Subject: WSJ Aricle on Enron and Mark to Market Accounting

December 4, 2001

Heard on the Street

'Mark to Market' Accounting Is Under Increased Scrutiny

By JONATHAN WEIL

Staff Reporter of THE WALL STREET JOURNAL

With their industry's pioneer in bankruptcy court, the legions of energy companies that followed Enron's lead into the go-go world of commodity trading are finding their own profits and accounting practices under scrutiny as well.

What ultimately triggered the collapse of investor confidence in **Enron** were its indecipherable disclosures for related-party transactions, compounded by its admitted financial misstatements and massive off-balance-sheet liabilities. But many critics say disclosure issues of a different sort dog the financial statements of most companies that trade electricity, natural gas and the like -- with the approval of the nation's accounting-rule makers.

At issue is a technique called "mark to market" accounting, under which the Financial Accounting Standards Board has given energy traders wide discretion to include as current earnings those profits they expect to realize in future periods from energy-related contracts and other derivative instruments.

For many energy-trading companies, significant chunks of earnings in recent years have come from recording unrealized, noncash gains through such accounting entries. Often, these profits depend on assumptions and estimates about future market factors, details of which the companies don't provide. And because of the minimal disclosure standards, it is difficult for investors to assess whose assumptions might be too aggressive, or what market changes might invalidate the assumptions -- and force earnings revisions.

"Whenever there's a considerable amount of discretion that companies have in reporting their earnings, one gets concerned that some companies may overstate those earnings in certain situations where they feel pressure to make earnings goals," says ABN Amro analyst Paul Patterson, who follows energy-trading firms.

[Go]See full coverage of the rise and fall of Enron

Mark-to-market accounting is required whenever companies have outstanding energy-related contracts on their balance sheets, either as assets or liabilities, at the end of a quarter. For example, these could be agreements to sell electricity or buy natural gas over time at certain prices. Under the rules, companies estimate the fair values of the contracts. Quarterly changes in value -- representing unrealized, noncash gains and losses -- then are run through the companies' income statements.

One way to gauge the size of some companies' past unrealized gains is to dig through their cashflow statements, which sometimes specify the noncash portion of trading gains. At Enron, unrealized trading gains accounted for slightly more than half of the company's \$1.41 billion of originally reported pretax profit in 2000 and about a third of its originally reported pretax profit of \$1.13 billion in 1999.

At Dynegy, unrealized gains accounted for nearly half its \$762 million in 2000 pretax profit and about half its \$227 million in 1999 pretax profit. Dynegy executives say there isn't anything wrong with the quality of their company's earnings. And they point to financial reports for the first nine months of 2001 showing that none of the company's reported earnings for this year came from unrealized gains.

Other energy traders whose earnings have been boosted in recent years by mark-to-market gains include American Electric Power, Duke Energy, El Paso, Entergy, Mirant, Pinnacle West Capital and Williams Cos.

How much discretion do energy traders have in valuing their contracts? The rule, pretty much, is that there aren't many rules.

For instance, during a conference last week sponsored by the FASB and the American Accounting Association, attendees were shown a hypothetical example under which the fair value of a power contract could range from \$40 million to \$153 million, depending on which assumptions of future trends were used.

And the mark-to-market rules that do exist for energy contracts were crafted in large part on approaches that **Enron** and other traders lobbied for. "We developed those rules," Enron's chief accounting officer, Richard Causey, said in an August interview.

Over the past three years, members of the FASB's Emerging Issues Task Force have extensively debated the subject of how to value energy-related contracts. What they have decided is that companies should be left to their own discretion, though the task force recognizes that could create problems. In a June 2000 report, for instance, the group noted that two companies in similar circumstances might apply different methods to estimate the fair value of their energy contracts, resulting in widely different valuations. "Those differences lead to the question of whether some of the methods in practice yield estimated amounts that are not representative of fair value," the report said.

The task force's chairman, Tim Lucas, says it simply is too difficult to draft a one-size-fits-all solution: "There's no one way to do it. There are various models, and we think it requires professional judgment to assess." Further, he says, requiring companies to disclose all the estimates underlying their earnings would produce disclosures so voluminous that they would be of little value.

That is in line with the industry's longtime position. In a June 2000 letter to Mr. Lucas, for instance, Mr. Causey said "the valuation process should be determined by individual companies," and the task force "should not address the valuation methodology for energy or energy-related contracts."

In its financial filings, Dynegy explains that when market-price quotes aren't available for certain longterm contracts, "the lack of long-term pricing liquidity requires the use of mathematical models to value these commitments." As a result, actual cash returns may "vary, either positively or negatively, from the results estimated."

Quoted market prices offering independent guidance on many short-term energy contracts have

become more readily available in recent years. Even then, there aren't rules specifying which market quotes companies must use. For instance, should companies mark their contracts based on the "bid" price, which is the price a market maker would offer to pay for a given contract? Or should they use the "ask" price, which is the price at which a trader is willing to sell? Or somewhere in between? Currently, individual companies decide for themselves.

On most contracts for short-term deliveries of natural gas, bid-ask spreads are fairly small, about 1% or so. But even for some short-term electricity contract prices quoted on Enron's now-shuttered online trading portal, spreads of 20% were common. On contracts for short-term delivery of telecommunications bandwidth, Enron often posted "ask" prices that were as much as eight times the posted "bid" prices.

For other long-term derivatives, such as electricity contracts stretching 20 years or longer, market quotes don't exist. In such cases, companies are allowed to base contract valuations on their own undisclosed estimates, covering everything from future commodity prices to credit risks and discount rates.

"It would seem wise for energy companies in this highly skeptical environment to provide the disclosures necessary for financial statement readers to understand the quality of their earnings, and provide the disclosures voluntarily," says Tom Linsmeier, an accounting professor at Michigan State University.

For now, however, energy traders aren't stepping up their disclosures. Dynegy's senior vice president and controller, Michael Mott, for instance, says his company "is committed to full disclosure and to eliminate any cloudiness around these disclosures." But he says Dynegy won't disclose any information about the market assumptions or methodologies underlying the unrealized gains it has recorded over the years. He says that would place Dynegy "at a competitive disadvantage in the marketplace."

-- John R. Emshwiller contributed to this article.

Write to Jonathan Weil at jonathan.weil@wsj.com <mailto:jonathan.weil@wsj.com>

Trac	kına:

Recipient Novey, Michael Hammer, Viva Eichner, Matthew

Delivery

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Read: 12/5/01 4:18 PM Read: 12/5/01 4:57 PM Read: 12/5/01 4:33 PM

From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:57 PM

To:

Novey, Michael; Hammer, Viva; Eichner, Matthew

Subject:

FW: Letters on Berardino's op-ed

----Original Message----

From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:52 PM

Roseboro, Brian; Bitsberger, Timothy; Gross, Jared; Wiedman, Mark; Nickoloff, Peter; Schultheiss, Heidilynne; Pietrangeli, Fred

Subject:

Letters on Berardino's op-ed

Voices

Enron's Alarm

RE: ("Enron: A Wake-Up Call") Mr. Berardino misses the point. Our financial accounting model is not broken, it is being abused. Sure Generally Accepted Accounting Principles (GAAP) are complicated. so is our economy. Focusing on historical performance is what we do in our profession; speculating on future performance is not. Personal integrity and character are what we should focus on. Companies that engage in off-balance-sheet transactions to subvert GAAP and mislead the financial community should be exposed, not praised for creating "sophisticated financing vehicles." Company executives holding equity positions in partnerships that compete with and benefit from transactions with their employer corporations are guilty of a clear conflict of interest. They should be discredited and legally pursued when they put their interests above the interests of the stockholders', whose assets they are entrusted to manage. Performing audits for clients like these can only end badly for auditors. Financial analysts who can't understand complex disclosures should admit it and get out of the business. Finally, any investor who hears the word "sophisticated" associated with an investment should immediately substitute the word "speculative," and adjust their expectations and investment strategies accordingly.

Robert L. Paretta, Ph.D., CPA

The writer is an associate professor of accounting and MIS at the University of Delaware

* * *

Mr. Berardino presents a dispassionate and reasoned response to the titanic misrepresentations of the financial circumstances surrounding the "sinking" of the good ship Enron. I can only believe that the style is a attempt to pre-empt outrage from investors and employees. Declaring a need for the good old boys in the accounting profession to get together on a solution after an \$80 billion dollar 'error" understates the nature and magnitude of the crime. If the accounting industry knows how to reduce the misrepresentations, as stated in the editorial, then why weren't controls put in place long ago. Compare this situation to safety in manufacturing plants, where laws with teeth assure that safety issues receive appropriate management attention and capital investment, and get priority over profitability. Rather than a need for a wake-up call, I would ask; Who audits the auditors?

Paul Haeberlen

Houston

* * *

The accounting profession and especially the "big 5", very much influence the accounting and auditing standards. The fact that the profession has allowed the accounting and auditing standards and their practical application to spin out of control, must be the fault of the profession. The profession that it has allowed giant conflicts of interest to exist. Accountants should make sure they are not only independent, but seen to be independent, and provide an independent view which can be relied upon by third parties. If the auditing profession does not correct itself, then it must expect that others will take the lead.

Angus McDowell New York

Tracking:

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Eichner, Matthew

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Read: 12/6/01 8:43 AM

From:

Carleton, Norman

Sent: To: Wednesday, December 05, 2001 2:56 PM Novey, Michael; Hammer, Viva; Eichner, Matthew

Subject:

FW: WSJ op-ed piece by CEO of Enron

-----Original Message-----

From:

Carleton, Norman

Sent:

Wednesday, December 05, 2001 2:49 PM

To:

Gross, Jared; Roseboro, Brian; Wiedman, Mark; Bitsberger, Timothy; Nickoloff, Peter; Schultheiss, Heidilynne; Pietrangeli, Fred

Subject: WSJ op-ed piece by CEO of Enron

December 4, 2001

Commentary

Enron: A Wake-Up Call

By Joe Berardino, a managing partner and CEO of Andersen.

A year ago, Enron was one of the world's most admired companies, with a market capitalization of \$80 billion. Today, it's in bankruptcy.

Sophisticated institutions were the primary buyers of **Enron** stock. But the collapse of **Enron** is not simply a financial story of interest to major institutions and the news media. Behind every mutual or pension fund are retirees living on nest eggs, parents putting kids through college, and others depending on our capital markets and the system of checks and balances that makes them work.

Our Responsibilities

My firm is Enron's auditor. We take seriously our responsibilities as participants in this capitalmarkets system; in particular, our role as auditors of year-end financial statements presented by management. We invest hundreds of millions of dollars each year to improve our audit capabilities, train our people and enhance quality.

When a client fails, we study what happened, from top to bottom, to learn important lessons and do better. We are doing that with Enron. We are cooperating fully with investigations into Enron. If we have made mistakes, we will acknowledge them. If we need to make changes, we will. We are very clear about our responsibilities. What we do is important. So is getting it right.

Enron has admitted that it made some bad investments, was over-leveraged, and authorized dealings that undermined the confidence of investors, credit-rating agencies, and trading counterparties. Enron's trading business and its revenue streams collapsed, leading to bankruptcy.

If lessons are to be learned from **Enron**, a range of broader issues need to be addressed. Among them:

Rethinking some of our accounting standards. Like the tax code, our accounting rules and
literature have grown in volume and complexity as we have attempted to turn an art into a
science. In the process, we have fostered a technical, legalistic mindset that is sometimes more

concerned with the form rather than the substance of what is reported.

[Illustration]

Enron provides a good example of how such orthodoxy can make it harder for investors to appreciate what's going on in a business. Like many companies today, Enron used sophisticated financing vehicles known as Special Purpose Entities (SPEs) and other off-balance-sheet structures. Such vehicles permit companies, like Enron, to increase leverage without having to report debt on their balance sheet. Wall Street has helped companies raise billions with these structured financings, which are well known to analysts and investors.

As the rules stand today, sponsoring companies can keep the assets and liabilities of SPEs off their consolidated financial statements, even though they retain a majority of the related risks and rewards. Basing the accounting rules on a risk/reward concept would give investors more information about the consolidated entity's financial position by having more of the assets and liabilities that are at risk on the balance sheet; certainly more information than disclosure alone could ever provide. The profession has been debating how to account for SPEs for many years. It's time to rethink the rules.

Modernizing our broken financial-reporting model. Enron's collapse, like the dot-com meltdown, is
a reminder that our financial-reporting model -- with its emphasis on historical information and a
single earnings-per-share number -- is out of date and unresponsive to today's new business
models, complex financial structures, and associated business risks.

Enron disclosed reams of information, including an eight-page Management's Discussion & Analysis and 16 pages of footnotes in its 2000 annual report. Some analysts studied these, sold short and made profits. But other sophisticated analysts and fund managers have said that, although they were confused, they bought and lost money.

We need to fix this problem. We can't long maintain trust in our capital markets with a financialreporting system that delivers volumes of complex information about what happened in the past, but leaves some investors with limited understanding of what's happening at the present and what is likely to occur in the future.

The current financial-reporting system was created in the 1930s for the industrial age. That was a time when assets were tangible and investors were sophisticated and few. There were no derivatives. No structured off-balance-sheet financings. No instant stock quotes or mutual funds. No First Call estimates. And no Lou Dobbs or CNBC.

We need to move quickly but carefully to a more dynamic and richer reporting model. Disclosure needs to be continuous, not periodic, to reflect today's 24/7 capital markets. We need to provide several streams of relevant information. We need to expand the number of key performance indicators, beyond earnings per share, to present the information investors really need to understand a company's business model and its business risks, financial structure and operating performance.

Reforming our patchwork regulatory environment. An alphabet soup of institutions -- from the
AICPA (American Institute of Certified Public Accountants) to the SEC and the ASB (Auditing
Standards Board), EITF (Emerging Issues Task Force) and FASB (Financial Accounting
Standards Board) to the POB (Public Oversight Board) -- all have important roles in our
profession's regulatory framework. They are all made up of smart, diligent, well-intentioned
people. But the system is not keeping up with the issues raised by today's complex financial
issues. Standard-setting is too slow. Responsibility for administering discipline is too diffuse and
punishment is not sufficiently certain to promote confidence in the profession.

All of us must focus on ways to improve the system. Agencies need more resources and experts. Processes need to be redesigned. The accounting profession needs to acknowledge concerns about our system of discipline and peer review, and address them. Some criticisms are off the mark, but some are well deserved. For our part, we intend to work constructively with the SEC, Congress, the accounting profession and others to make the changes needed to put these concerns to rest. Improving accountability across our capital system. Unfortunately, we have witnessed much of
this before. Two years ago, scores of New Economy companies soared to irrational values then
collapsed in dust as investors came to question their business models and prospects. The dotcom bubble cost investors trillions. It's time to get serious about the lessons it taught us.

Market Integrity

In particular, we need to consider the responsibilities and accountability of all players in the system as we review what happened at **Enron** and the broader issues it raises. Millions of individuals now depend in large measure on the integrity and stability of our capital markets for personal wealth and security.

Of course, investors look to management, directors and accountants. But they also count on investment bankers to structure financial deals in the best interest of the company and its shareholders. They trust analysts who recommend stocks and fund managers who buy on their behalf to do their homework -- and walk away from companies they don't understand. They count on bankers and credit agencies to dig deep. For our system to work in today's complex economy, these checks and balances must function properly.

Enron reminds us that the system can and must be improved. We are prepared to do our part.

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Recipient
Novey, Michael
Hammer, Viva
Eichner, Matthew

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From:

Carleton, Norman

Sent:

Thursday, August 23, 2001 4:32 PM

To:

Novey, Michael; Hammer, Viva; Eichner, Matthew

Subject: FW: Enron article (2)

Tracking: Recipient

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Novey, Michael Delivered: 8/23/01 4:32 PM Read: 8/24/01 9:38 AM

Hammer, Viva Delivered: 8/23/01 4:32 PM

Eichner, Matthew Delivered: 8/23/01 4:32 PM Read: 8/23/01 10:59 PM

----Original Message-----

From: Norman Carleton [mailto:Norman.Carleton@worldnet.att.net]

Sent: Thursday, August 16, 2001 11:43 PM

To: Norman Carleton; norman.carleton@do.treas.gov

Subject: Enron article (2)

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AUG 16, 2001

Enron Head Seeks to Reassure Staff

By REUTERS

Filed at 4:48 p.m. ET

HOUSTON (Reuters) - The chairman of Enron Corp. (news/quote) (ENE.N) on Thursday sought to reassure employees that the energy giant's business was on firm footing as its stock faced a second day of brutal pressure on Wall Street, following a top executive's shock resignation.

Kenneth Lay told employees at a companywide meeting that Enron's business was strong, despite the extended pressure on its stock and heir apparent Jeff Skilling's unexpected resignation as president and chief executive officer.

Lay, who was met with a standing ovation when he took the podium, touched on a wide variety of topics during the 90-minute meeting during which he took questions and presented financial data he said proves the company is strong.

"We've got a lot of great stuff going on and we're not getting much credit for it in the marketplace, but we will," Lay said. "I do think the next several months and few years are going to be great for Enron."

His comments came as Enron's stock saw its worst day in 19 months, closing down \$3.40 or 8.5 percent at \$36.85 on the New York Stock Exchange. That brings its losses to roughly 13 percent since Skilling announced his resignation after the market's close Tuesday.

Lay said he believed the energy giant's stock can sustain a price-to-earnings (P-E) multiple of 25-30 going forward. It is about 20 right now, based on Wednesday's close.

"I think the current business model can easily justify a 25-30 P-E, with the current business model and in the current market," Lay said. "We can't get that 40-50 P-E back until we get our return on capital investment 1/16/02

up."

Enron enjoyed the higher multiples as recently as March, but then the stock began an extended slump that saw it lose about half its value.

WHO REPLACES SKILLING?

Though Lay took Skilling's duties over, he told employees that he expected to fill the void Skilling left in the office of the chairman in the next few days. Skilling, 47, was chief operating officer before Lay handed him the CEO reins in February, and the COO position has remained unfilled since then.

The executive or executives who assume the operational role Skilling had will largely be seen as the new heir or heirs apparent to Lay, 59. Enron earlier said it would increase the office of the chairman, which previously was occupied by Lay and Skilling, to include Lay and two understudies.

"Certainly, there is a hole in the office of the chairman, and we will be addressing that very soon. I think I told some people yesterday that we were looking to do something probably in the next couple of days," Lay said.

Lay reiterated that the succession will be internal, but did not elaborate on which executives he would choose.

MANY GLOBAL ASSETS TO GO

The best way to return Enron's stock to its headier levels will be to get a higher return on capital investment, he said. Enron hopes to glean billions from a sale of low-yield global assets, which it will then pour into highreturn businesses, Lay said.

"The quickest way to do that is to monetize some of these assets," Lay said. "That doesn't mean we're going to monetize all of them."

He said Enron will still be very active in Europe, Japan, Australia and other countries, and may start working in developing countries at some point in the future.

Lay took more than a dozen questions from the audience, with topics ranging from work-a-day issues like how close cubicles will be spaced in Enron's new office building to the issue of what recourse there is for employees who have stock options that are priced in the \$80 range.

While he rebuffed a re-pricing of those options because "stockholders hate that," he did say all employees would be issued a new round of options that are priced at current levels.

Touching on another recent issue, Lay said Enron was in advanced talks to sell Oregon utility subsidiary Portland General, which was to be sold to utility Sierra Pacificfor \$3.1 billion until regulatory issues scuttled the deal.

"We have another transaction that is pretty far advanced and it might be a transaction where we would even maintain some ownership interest in that business for some time. But it's not far enough advanced to talk about right now," Lay said, not revealing the name of the potential buyer.

Asked if Enron's broadband arm would suffer more layoffs if was not successful by year's end, Lay said he thought ``the odds of that are very, very small." Lay said 500 people were taken out of Enron's broadband operation, with about half being laid off and the rest being redeployed within the company.

The underperformance of the broadband business, which coincided with the broad collapse of the 1/16/02 telecommunications market, is among several problems that have dogged Enron lately.

They include a costly payment fight with the Indian government over the \$3 billion Dabhol power plant, the vilification of Enron by California politicians who blame Texas companies for their power crisis, and the breakup of a marquee video on-demand broadband Internet deal with Blockbuster Inc. (news/quote) (BBI.N).

Answering an employee question, Lay said there was no truth to a rumor that Royal Dutch/Shell RD.AS (SHEL.L) was planning a hostile takeover of Enron because of the stock's recent weakness.

From: C

Carleton, Norman

Sent:

Thursday, August 23, 2001 4:32 PM

To:

Novey, Michael; Hammer, Viva; Eichner, Matthew

Subject: FW: Enron article

Tracking: Recipient

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Novey, Michael Delivered: 8/23/01 4:32 PM Read: 8/24/01 9:37 AM

Hammer, Viva Delivered: 8/23/01 4:32 PM Eichner, Matthew Delivered: 8/23/01 4:32 PM

----Original Message----

From: Norman Carleton [mailto:Norman.Carleton@worldnet.att.net]

Sent: Thursday, August 16, 2001 11:39 PM

To: Norman Carleton; norman.carleton@do.treas.gov

Subject: Enron article

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AUG 15, 2001

Enron's Chief Executive Quits After Only 6 Months in Job

By RICHARD A. OPPEL Jr. with ALEX BERENSON

ALLAS, Aug. 14 — Jeffrey Skilling, the chief executive of the Enron Corporation (news/quote), stunned Wall Street today by announcing that he would quit after just six months in the job, calling the move a "purely personal decision."

But the abruptness of the departure left many analysts questioning whether a series of setbacks the company has suffered played a part in the decision.

Kenneth Lay, Enron's 59-year-old chairman, will step back into the position he left early this year after 15 years as chief executive.

Mr. Lay, who originally recruited Mr. Skilling to Enron, said tonight that he had agreed to stay on through the end of 2005 to "make sure we've got plenty of time to work out an orderly succession."

Mr. Skilling, 47, had been at the heart of the transformation of Enron from an old-line natural gas pipeline company to the biggest and most aggressive of the new breed of unregulated energy traders that buy and sell billions of dollars of electricity and other commodities daily.

That strategy helped Enron's stock price soar during the last decade. But this year the company's shares have fallen sharply, as Enron has suffered from problems with its new broadband telecommunications trading unit, its investment in a large power plant in India, and criticism from officials in California, who blame Enron and other energy companies fo the collapse of the state's electricity market.

A former energy consultant at McKinsey & Company who joined Enron in 1990, Mr. Skilling built its energy-trading operations into the company's most profitable unit, accounting for nearly \$1.7 billion — or 85 percent — of operating income last year. He became president and chief operating officer in 1997, and in February of this year became chief executive.

1/16/02

On a conference call, Mr. Skilling said he could not "stress enough that this has nothing to do with Enron." He added that "the reasons for leaving the business are personal, but I'd just as soon keep that private."

Mr. Skilling, who is divorced, has joint custody of three teenage children — a daughter, 17, and two sons, 14 and 11 — with his ex-wife. Mr. Skilling, who will leave the board but will serve as a consultant to the company, will not receive any severance package because his departure is voluntary, Mr. Lay said.

Since May 2000, Mr. Skilling has sold at least 450,000 Enron shares worth at least \$33 million, according to Securities and Exchange Commission filings. He still owns about 1.1 million shares, the filings show.

"Absolutely no accounting issue," Mr. Lay told analysts, "no trading issue, no reserve issue, no previously unknown problem issues" are behind the departure. There will be "no change in the performance or outlook of the company going forward," he added.

He also said the company was on track to meet analysts' earnings expectations, which are about \$1.80 a share this year and \$2.15 next year.

On the call, Mr. Skilling said that "in general there have been a lot of issues" that have buffeted the company this year, but he said that he believed Enron had already surmounted most of them. "Now is the time" to step down, he said, "because I think we've got a lot of these things behind us."

Nonetheless, the move jolted analysts, who, despite the stock's recent slide and the company's other problems, saw Mr. Skilling as the unquestioned leader to follow Mr. Lay.

In after-hours trading, shares of Enron fell about 8 percent, to \$39.55. That fall follows a plunge of almost 50 percent since January in the stock, which had closed in regular trading at \$42.93, up 78 cents. The news of the executive changes came after the market closed.

"I'm surprised and I'm stunned," said Philip K. Verleger, an energy economist with the Brattle Group, a consulting firm in Cambridge, Mass. "Skilling was the guy who executed the growth in the trading business."

Investors have become increasingly concerned that a surge in new power plant construction will lead to a glut of electricity within a few years and lower the value of Enron's role as a middleman between plant owners and electricity users. In addition, the company's efforts to enter the water business have fared poorly, and its broadband trading operation has become a cash drain.

Mr. Skilling's promotion early this year came after several crucial Enron executives resigned. These included Rebecca Mark, who at one time was considered a rival for the top job.

Ms. Mark became chief executive of the Azurix Corporation (news/quote) in 1999 after Enron spun off the company, its global water business. But its financial performance was disappointing, and Ms. Mark left the company last year. Enron later agreed to buy back Azurix stock for less than half what public shareholders had paid.

From:

Carleton, Norman

Sent:

Tuesday, November 20, 2001 4:41 PM

To:

Roseboro, Brian; Bair, Sheila; Bitsberger, Timothy

Subject:

Bloomberg: Enron Falls Amid Concern Debt Threatens Dynegy Bid (Update5)

11/20 16:05

Enron Falls Amid Concern Debt Threatens Dynegy Bid (Update5)

By Stacie Babula

Houston, Nov. 20 (Bloomberg) — Enron Corp. shares and bonds dropped after the energy trader disclosed it may have to pay \$9.15 billion in debt due by 2003, suggesting the company may run out of cash before its takeover by Dynegy Inc. can be completed.

Shares of Enron fell \$2.05, or 23 percent, to \$7.01. Earlier they touched \$6.55, the lowest price in more than a decade. Enron's 6.4 percent notes due in July 2006 were bid as low as 69 cents on \$1 of face value and offered at 73 cents, down more than 13 percent in light trading, traders said.

Enron, whose dealings with affiliated partnerships led to earnings restatements, credit-rating cuts, a federal investigation and a management shakeup, said in a regulatory filing that it has less than \$2 billion in cash or credit lines. Dynegy plans to complete its buyout by October, and Enron may have to ask lenders to restructure payment schedules to survive.

"This filing shows that Enron is in a precarious financial situation," said Commerzbank Securities analyst Andre Meade, who rates Enron shares "hold" and doesn't own them. "They have to stay affoat for the Dynegy deal to go through, and that now looks difficult."

Enron and Dynegy wouldn't comment on the stock drop today. Standard & Poor's Investors Service said that Enron's credit rating remained on negative watch, indicating it would not immediately downgrade the company's debt.

\$690 Million Surprise

"Enron's near-term liquidity position is. . . expected to be sufficient to carry the company through the completion of its proposed merger with Dynegy," S&P said in a report.

Investors were concerned the debt, including a \$690 million note that Enron disclosed it may have to pay off next week, would lead to a cut in Enron's credit rating, analysts said.

The filing was a "distraction" that will not threaten the merger, said Todd Shipman, a director at S&P who follows Enron.

"Our approach to this has been on the basis that the Dynegy deal is a good thing for credit quality," Shipman said.

Moody's Investors Service, which didn't issue a statement on Enron's debt today, kept the company's credit rating at investment grade on Nov. 9, the day Dynegy announced it would buy Enron in a deal now valued at \$25 billion.

The ruling came after executives from Lehman Brothers Holding Inc., J.P. Morgan Chase & Co. and Citigroup Inc.'s Salomon Smith Barney lobbied the credit-rating company, people familiar with the situation said.

Avoiding Junk

A junk rating would have led Dynegy to abandon the acquisition, Dynegy Chief Executive Officer Charles Watson said. It would also have triggered debt repayment of at least \$3.9 billion, Enron said in a Securities & Exchange Commission filing yesterday.

Enron shares are selling for almost 32 percent less than the value of Dynegy's offer, showing investors have doubts the deal will be completed. Dynegy shares fell \$1.90 to \$41.70 today.

"It's become more clear that the chances of this deal going through aren't 90 percent, but much closer to fifty-fifty," said Edward Paik, who helps manage the Liberty Utilities Fund, with 1.6 million Enron shares. "There's just so much information that is unknowable" about Enron's financial position, he said.

Most of the \$9.15 billion in debt is due before the end of the third quarter, when the Dynegy buyout is scheduled to close. Enron said yesterday in a third-quarter filing with the SEC.

Asset Sales Planned

Last week, Enron Chief Operating Officer Greg Whalley said the company will sell assets of "non-core businesses" to raise money. It has \$8 billion invested in the businesses, including broadband telecommunications and the Dabhol power plant in India. Enron expects to get "billions" from the sales, Whalley said, without being more specific.

Enron reported vesterday that its U.S. operations had \$1.2 billion in cash left. It has added at least \$5 billion since Sept. 30. from credit lines, loans and a \$1.5 billion investment from ChevronTexaco, part owner of Dynegy.

Enron used \$1.9 billion of the money it raised to retire commercial paper, which is short-term debt. It gave no details on how it spent the remaining \$3.1 billion.

Enron Chief Financial Officer Jeffrey McMahon said last week that the company also was looking to get another \$500 million to \$1 billion from private investors.

Asset sales valued at about \$800 million are expected to close by the end of this year, according to the SEC filing. Enron spokeswoman Karen Denne wouldn't comment on whether it could sell assets fast enough to keep current on its debts.

Dynegy will have to help Enron sell assets, said Mitchell Stapley, who manages \$3.5 billion in fixed-income assets including Enron bonds for Fifth Third Investment Advisors Inc.

Dynegy and ChevronTexaco Corp., which owns 26 percent of Dynegy, also will have to help Enron negotiate with its lenders, said Kathleen Vuchetich, who helps manage the \$1.4 billion Strong American Utilities Fund, which is 5 percent Dynegy shares.

Debt Questioned

"I never dreamt (the \$9.15 billion) would be that large, coming due all at once," Vuchetich said. "It calls into question their decision to schedule it that way in the first place."

ChevronTexaco, the second-largest U.S. oil company, is providing \$2.5 billion in cash as part of the Enron buyout. It provided the first \$1.5 billion a week ago.

Shares of ChevronTexaco, based in San Francisco, rose \$3.62 to \$86.53.

Enron yesterday reduced third-quarter results by 3 cents a share, bringing the period's loss to 87 cents, or \$664 million. On Nov. 8, Enron lowered earnings back to 1997 by \$586 million to reflect losses by affiliated partnerships that were wrongly kept off the books. That included a third-quarter reduction of \$17 million.

A drop in Enron's senior unsecured debt rating to "BBB-" by Standard & Poor's on Nov. 12 may force Enron to pay off a \$690 million note by Nov. 27 if it doesn't find collateral to guarantee the debt taken on by an affiliated partnership that owns Brazilian natural-gas assets, the filing said.

Without repayment or collateral, investors can begin to liquidate the partnership's assets, Enron said. The company said it's working with lenders to come up with an acceptable agreement on the debt.

Making good on debt owed by its Whitewing affiliated partnership may cut Enron's fourth-guarter earnings. Enron said. Enron is obligated to back Whitewing by issuing junior convertible preferred stock. Because Enron's stock has plunged, it may have to write down its assets by \$700 million, the filing said.

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oseboro, Brian

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Bair, Shella Delivered: 11/20/01 4:41 PM ead: 11/20/01 4:51 PM Bitsberger, Timothy Delivered: 11/20/01 4:41 PM ead: 11/20/01 4:53 PM

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Nickoloff, Peter

From: Sent: Carleton, Norman

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To:

Tuesday, December 04, 2001 11:06 AM Bair, Shella; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo,

Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley,

Jean; Wiedman, Mark

Subject:

WSJ: December 4, 2001 Creditors Look for Their Advantage

December 4, 2001

Major Business News

As Enron Heads to Bankruptcy Court, Creditors Look for Their Advantage

By HENNY SENDER

Staff Reporter of THE WALL STREET JOURNAL

Enron Corp.'s Chapter 11 bankruptcy filing marks the beginning of complicated jockeying as hundreds of creditors seek to get the most they can at the expense of other creditors.

Filings expected to be submitted to the court subsequent to Enron's original petition Sunday will at least partially lift the veil of secrecy that has long hovered over the company's dealings. But for now, few of Enron's many unsecured creditors have any idea how much they can hope to recover, thanks to Enron's complex structure and the huge liabilities that were tucked away in partnerships not consolidated onto the company's balance sheet.

In its Chapter 11 filing, Enron Corp. listed \$13.15 billion in debt. When combined with obligations of its 13 subsidiaries also in bankruptcy proceedings, on-balance-sheet debt totals \$31.24 billion. Some bankers who are involved estimate the parent company has an additional \$27 billion in off-balance-sheet and contingent liabilities. The combined list of creditors attached to Enron's bankruptcy filing is 54 pages long.

Precisely because there are so many claims, the contesting among Enron's creditors is expected to be especially fierce. While bankruptcy law specifies a clear ranking of claims -- with senior secured creditors at the top of the pyramid, the mass of unsecured claims beneath them and equity holders at the bottom -- bankruptcy proceedings aren't always set in stone.

[Go]See full coverage of the rise and fall of Enron

"Chapter 11 is the only place in the legal system where you can alter the rights of one creditor against another and alter the distribution of losses," said Stephen Case, a **bankruptcy lawyer** with Davis Polk Wardell in New York.

In coming weeks, Enron will file other legal documents that will be widely scrutinized by creditors and potential vulture investors, who buy distressed debt, for information about the ultimate value of the company.

Until now, many distressed-debt players have been on the sidelines, citing the impossibility of understanding Enron's business operations, the extent of its liabilities and the possibility that its financial records contain misstatements beyond the restatements announced last month by Enron.

"Traditionally, immediately after a bankruptcy filing, a flurry of opportunistic investors will look at the company," said Edward Tillinghast, a **bankruptcy lawyer** with Coudert Brothers in New York. "It is easier to analyze after bankruptcy because so much more information becomes available."

"After a filing, the paper tends to get concentrated," added Mr. Case of Davis Polk. "Many institutional investors have to dump their securities because they don't want to be seen in [or aren't allowed to hold] defaulted paper. So they call the vulture funds and ask them to take it off their hands."

Complicating the negotiations: Claimants and creditors are a varied lot with diverse interests, reflecting Enron's combination of physical and financial assets -- thousands and thousands of financial contracts, whose value is uncertain and likely to be highly contentious.

Usually, it is the unsecured creditors who compete most intensely for a share of the assets. In order to compete, the savviest creditors, such as the distressed-debt funds, which usually acquire debt positions at discounted prices, engage in a variety of strategies. For instance, they may threaten senior classes with the specter of a long drawn-out legal battle unless concessions are made. Or, because each class of creditors gets to vote on any settlement, one party may buy up others' claims in order to control just over a third of the debt of that class -- enough to influence the entire outcome.

It is even possible to gain control of the company through skillful maneuvering, though it isn't clear that anyone would want to in Enron's case.

Write to Henny Sender at henny.sender@wsj.com <mailto:henny.sender@wsj.com>

Nickoloff, Peter

From: Sent:

Carleton, Norman

Friday, December 14, 2001 3:04 PM

To:

Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross.

Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael;

Pietrangell, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark

Subject:

WSJ: Spotlight on Enron is Expected to Lead To New Oversight of Accounting Firms

December 14, 2001

Major Business News

Spotlight on Enron Is Expected to Lead To New Oversight of Accounting Firms

By MICHAEL SCHROEDER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- Capitol Hill's bright spotlight on Enron Corp. is expected to lead to new regulations aimed at improving corporate financial disclosure and spur new oversight of accounting firms.

A half-dozen congressional panels and regulators are investigating the causes of Enron's plunge into Chapter 11 bankruptcy protection, which has left investors holding stock worth pennies and put thousands of employees out of work while decimating their retirement savings.

Committee chairmen are maneuvering to lead the government's response to the Enron debacle. On Wednesday, two House Financial Services subcommittees held the first of numerous planned hearings, with lawmakers suggesting new oversight of accountants might be in order.

The Energy and Commerce Committee and one of its subcommittees will hold hearings next month. In the Senate, the Commerce Committee has scheduled a hearing on Enron next week, and the Government Affairs Committee also plans to examine the company.

Lawmakers are focusing on how Enron could make confusing public disclosures about its finances and how it used accounting devices to cover up its true condition. Lawmakers have questioned how stock analysts could have such poor understanding of Enron, and whether the Securities and Exchange Commission's Regulation Fair Disclosure, which requires wide public dissemination of important events, failed in Enron's case.

[Go] Arthur Andersen's 'Double Duty' Work Raises Questions About Its Independence

Lawmakers also are investigating Enron's longtime auditor, Arthur Andersen LLP, which signed off on Enron's accounting even though debt-laden partnerships -- a critical factor in Enron's collapse -- were left off its balance sheet.

During January hearings, Financial Services Committee members may call for the SEC to reconsider whether broader financial disclosures by companies are needed. Lawmakers also may press for a new accounting-industry self-regulatory organization, operating under SEC supervision.

"I typically prefer private-sector regulation to federal regulation. But if the private sector fails in its responsibilities and creates a vacuum, then the federal government has a duty to protect its citizens by addressing the market failure," said Rep. Paul Kanjorski of Pennsylvania, the ranking Democrat on the Financial Services Committee's Capital Markets panel.

Already, SEC Chairman Harvey Pitt has pledged to overhaul financial disclosures, requiring companies to inform investors of market-moving information immediately. The current rules let companies report important information in quarterly filings. Mr. Pitt said the new system, which will require new rules and commission approval, will make the year-old Regulation Fair Disclosure irrelevant. The rule bars companies from providing material information to select groups, such as Wall Street analysts, mutual funds and institutional investors, unless the company simultaneously issues press releases or makes SEC filings.

While a new accounting regulatory agency has been discussed for decades, the Enron accounting mess may force action. In an unprecedented joint statement recently, the Big Five accounting firms said they would work with the SEC and others to modernize the financial-reporting and accountingrule systems.

Pension rules are certain to come under scrutiny, too. Enron executives cashed out more than \$1 billion in company stock while ordinary employees were barred from selling it from their Enron-heavy 401(k) accounts as share prices plunged, complained Rep. Richard Baker (R., La.), chairman of the Financial Services subcommittee on capital markets. Enron's stock, which sold at more than \$80 a share a year ago, has tumbled to less than \$1 a share.

The House Education and Workforce Committee is looking into whether Enron violated pension law and whether changes in company stock ownership in pension plans are needed.

In addition, the Federal Energy Regulatory Commission is planning to update rules on energyderivatives accounting and reporting. FERC's action is expected to take the steam out of congressional Democrats, who see pending federal energy policy legislation as an opportunity to press regulatory reforms in the wake of Enron's troubles.

Write to Michael Schroeder at mike.schroeder@wsj.com <mailto:mike.schroeder@wsj.com>2

From: Sent:

To:

Cc:

Wiedman, Mark Friday, January 11, 2002 9:10 AM Carleton, Norman; Schultheiss, Heidilynne Nickoloff, Peter; Bitsberger, Timothy; Stokes, Veronica enron meeting -- 12:00?

Subject:

Tim would like to go over the Enron paper you folks put together at 12. Can you make that?

02727

From:

Lori.Santamorena@bpd.treas.gov

Sent:

Friday, January 11, 2002 8:40 AM

To:

norman.carleton@do.treas.gov

Subject: 1BN) Treasury's O'Neill Comments on Enron Calls,

---- Forwarded by Lori Santamorena/BPD on 01/11/02 08:39 AM ----

"PUBLIC DEBT, US DEPT OF TREASURY" <GSRS@bloomberg.net>

01/11/02 08:17 AM

To: Isantamorena@bpd.treas.gov

cc:

Subject: 1BN) Treasury's O'Neill Comments on Enron Calls, Disclosur

Treasury's O'Neill Comments on Enron Calls, Disclosure Rules 2002-01-10 19:35 (New York)

Washington, Jan. 10 (Bloomberg) -- The following are comments from U.S. Treasury Secretary Paul O'Neill on his conversations with Enron Corp.'s chairman Ken Lay prior to Enron's bankruptcy and a review by government regulators of the adequacy of corporate disclosure rules. D'Neill spoke during interviews on Cable News Network and CNEC.

"My first call from Ken Lay was for him to give me a headsup that they were struggling and to offer the president of his company to speak with the Undersecretary of Domestic Finance (Peter Fisher) to understand the positions they had so we could make sure that we were taking care of our responsibility, which is to make sure that the U.S. capital markets work," O'Neill told CNN.

"That was the purpose of Ken's call to me, to let me know we were welcome to have access to information so we could understand what they were doing and the possible exposure to the world's capital markets.

"The second call, Ken called me to tell me they were in discussions with Dynergy and it was an information-only call. Subsequently, (Commerce Secretary) Don Evans called we to say he'd had a call and that Ken had told him that rating agencies were looking at them and there was real concern if the rating agencies downgraded them that that could effectively scupper the deal with Dynergy,'' be said.

On what he did following the call:

"I subsequently asked (Fisher) to speak with the Enron people, which he did, so that we could satisfy ourselves that the Enron affairs were not going to have a negative impact on U.S. capital markets," O'Neill told CNSC.

On whether he thinks ethics rules were broken:

"I thought it was business as usual," he told CNBC. "I get calls every day from the big players in the world. Snron was the biggest trader of energy in the world. So I was not surprised at all that I would get a call saying we've got a problem over here and you should know about it."

on whether he was be asked by Ken Lay for a government bailout:

"Absolutely not," he told CNBC. "One of things I enjoy
about Tressury is I don't have a lot of giveaway programs so if he
wanted a giveaway from the government he sure wouldn't have called
me. I don't know if one were inclined to make bailouts why there
would be a bailout for a company that's gotten itself into
trouble. If you want to look at recent Chapter 11 filings or
Chapter seven filings you can look at Bethlehem Steel and Sunbean

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and they don't call the government for a bailout. I ran a Fortune 50 company, it never would have occurred to me to call the government for a bailout if I got my company in trouble."

On what President George M. Bush has asked him to do today:
 "The president tasked me to one, head a committee that
includes Don Evans and (Labor Secretary) Elaine Chao to look at
the Enron case and other bankruptcy cases to pay special attention
to the question of whether we need to amend the rules that govern
pension plans and 401k plans to provide a greater deal of
assurance to individuals who have a stake in pension plans and
401k plans," he told CNN. "That is driven by the president's
concern about the individual employees. The president said to me
we need to see if there is something we need to do so that we
learn from this. If there is a weakness in our rules let's fix the
rules."

"And the second committee the president asked me to convene is one that's a standing committee, the president's economic committee. That includes myself and Alan Greenspan, the head of [the Commodities Futures Trading Commission] and Harvey Pitt of the SEC. The charge the president's given us is to look at the Enron case and other cases and see if we need to adjust the disclosure rules so that shareholders and employees have all the information they need to make intelligent decisions. This is not about Enron, this is about making sure the rules that govern the way our economic system works are worthy of the conditions that we're dealing with these days to assure that individuals are not burt because of a weakness in our rules."

--Simon Mennedy in the Washington newsroom (202) 624-1834, or at skennedy4@bloomberg.net /jo

Story illustration: For graph of Enron's stock price, type: [ENE US <Equity> GPO D <GO>}

ERRE US «Equity» CN

NI TEE

NI SEC

NI SCR

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